

INVESTOR REPORT FY11

25 AUGUST 2011



DIRECTORY

SECURITIES EXCHANGE LISTINGS

ASX Limited:

- ASX code for Ordinary Shares: **IAG** (Shares on issue, 30 June 2011: 2,079,034,021)
- ASX code for Reset Preference Shares: **IAGPA** (Listed June 2002)
- ASX code for Reset Exchangeable Securities: **IANG** (Listed January 2005)

London Stock Exchange:

- LSE code for Fixed Rate Subordinated Notes due 2026: **70QG** (£142.4m outstanding at 30 June 2011)

KEY DATES

Final dividend – ordinary shares

- Ex-dividend date 1 September 2011
- Record date 7 September 2011
- Payment date 5 October 2011

Payment date for IANG quarterly distribution 15 September 2011

Annual General Meeting 26 October 2011

Payment date for IAGPA and IANG distributions 15 December 2011

Announcement of half year results to 31 December 2011 23 February 2012

Interim dividend – ordinary shares

- Ex-dividend date 7 March 2012*
- Record date 14 March 2012*
- Payment date 16 April 2012*

Payment date for IANG quarterly distribution 15 March 2012

Payment date for IAGPA and IANG distributions 15 June 2012

Announcement of full year results to 30 June 2012 23 August 2012*

*These dates are indicative dates only and are subject to change. Any change will be announced on ASX.

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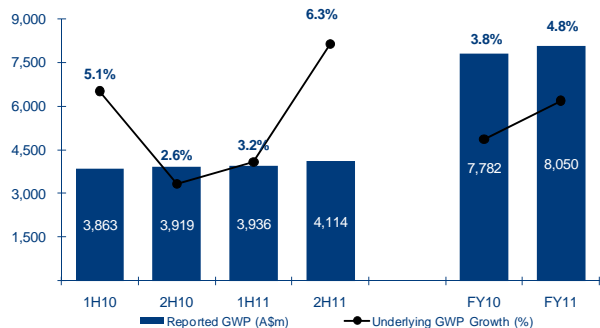
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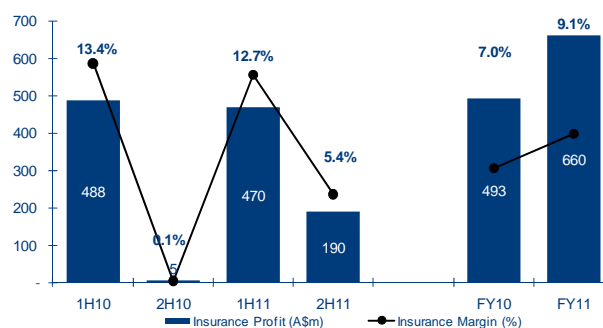
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FY11 GROUP RESULTS

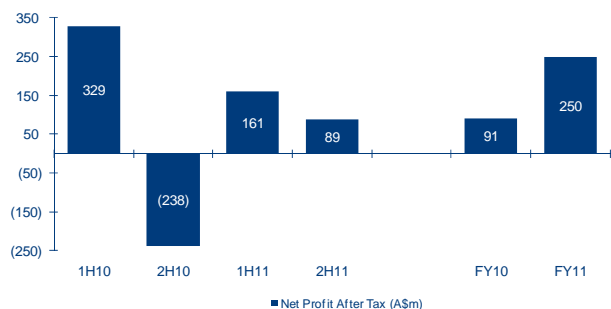
REPORTED GWP & UNDERLYING GWP GROWTH



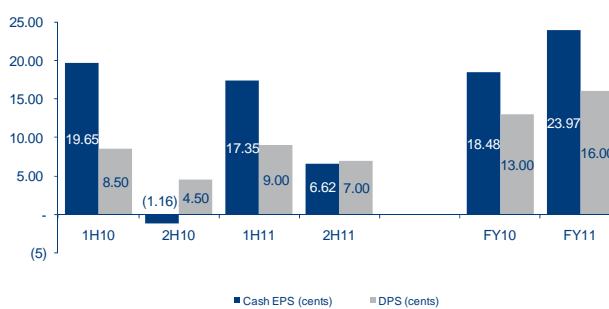
INSURANCE PROFIT & MARGIN



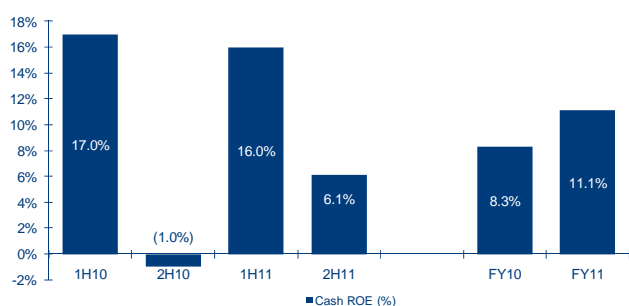
NET PROFIT AFTER TAX



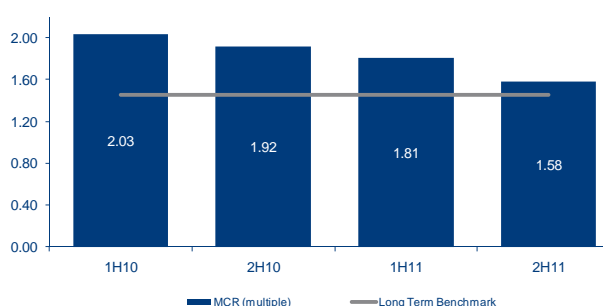
CASH EPS & DPS



CASH ROE



MINIMUM CAPITAL RATIO



KEY POINTS

FY11 OVERVIEW

In line with updated guidance for FY11, IAG has announced:

- Underlying gross written premium (GWP) growth of 4.8%; and
- An insurance margin of 9.1%.

This sound result was achieved despite an extremely challenging operating environment in 2H11. It demonstrates the solid platform that has been established, particularly in the home markets of Australia and New Zealand which represent nearly 90% of Group GWP.

The year contained contrasting halves.

In 1H11 the Group reported an insurance margin of 12.7%, which included:

- A strong collective performance from the Group's Australasian businesses; countered by
- An insurance loss of \$121m from the UK business, where bodily injury claim inflation surpassed expectations.

The significantly lower 2H11 insurance margin, of 5.4%, reflected:

- An unprecedented level of natural peril activity in Australia and New Zealand, which resulted in:
 - Net related claim costs of \$476m (1H11: \$134m), which exceeded second half allowances by \$229m; and
 - Incremental reinsurance costs of \$83m, stemming from reinstatements purchased and accelerated amortisation of utilised covers.
- Higher than expected reserve releases of \$225m (FY11: \$328m); and
- A reduced loss of \$60m from the UK, which includes a \$36m expense in respect of adverse development cover (ADC), as remediation actions take hold.

At 30 June 2011, the Group's Minimum Capital Requirement (MCR) multiple was 1.58.

FY11 insurance margin of 9.1%, in line with guidance

OUTLOOK

The Group is confident of an improved performance in FY12, notwithstanding the impact of higher reinsurance costs, and has provided the following guidance:

- GWP growth of 6-9%; and
- An insurance margin of 10-12%.

This assumes:

- Net losses from natural perils in line with budgeted allowances of \$580m;
- No material change in foreign exchange rates or investment markets; and
- Lower net prior period reserve releases of up to 2% of net earned premium (NEP).

FY12 insurance margin guidance of 10-12%

1. EXECUTIVE SUMMARY

FY11 OVERVIEW

IAG's Australian and New Zealand businesses have maintained the sound underlying performance evident in 1H11, reflecting strong underwriting discipline and expense management.

Together, the Australasian businesses reported GWP growth of 6.3% and a combined insurance margin of 12.9% in FY11 (FY10: 13.2%). This outcome was despite natural peril claim costs being significantly higher than related allowances, owing to the unprecedented sequence of major events in 2H11.

The Group has reported an improved full year insurance margin of 9.1% (FY10: 7.0%). This is in line with the updated guidance provided on 23 February 2011, and contains the following material influences on reported performance:

- Net natural peril claim costs of \$610m (FY10: \$463m), which exceeded allowances of \$435m by \$175m and reduced the reported margin by 2.4%. Notable peril events during the year included heavy rain and storms in Brisbane and Toowoomba (January 2011), Tropical Cyclone Yasi (February 2011), and three successive major earthquakes in Christchurch, New Zealand (September 2010, February 2011 and June 2011);
- Incremental reinsurance expenses stemming from that severe natural peril activity, of \$83m, comprising reinstatement and accelerated amortisation costs;
- Higher than expected reserve releases of \$328m (FY10: \$228m), reflecting recent favourable experience in long tail classes in Australia; and
- A slower than anticipated recovery in the UK, following higher than expected bodily injury claim inflation and inclusion of a \$36m adverse development cover (ADC) expense. Remediation actions contributed to a significantly reduced 2H11 loss.

Underlying GWP growth of 4.8% was achieved in FY11, at the upper end of the Group's guidance of 3-5%. Reported GWP of \$8,050m increased by 3.4%, as a stronger Australian dollar adversely impacted the translation of GWP from offshore operations.

Investment income on shareholders' funds improved to \$213m (FY10: \$96m), largely due to the absence of a \$96m charge from reversal of the exchange right valuation in respect of the Reset Exchangeable Securities (RES).

Net profit after tax for FY11 was \$250m, compared to a profit of \$91m in FY10.

Reported ROE in FY11 was 5.6%, and cash ROE was 11.1%.

The Board has determined to pay a final dividend of 7.0 cents per ordinary share (fully franked). This brings the full year fully franked dividend to 16.0 cents, an increase of 23% over FY10 (13.0 cents) and equating to a cash payout ratio of 67.1%. This is consistent with the Group's policy to pay out 50-70% of full year cash earnings.

FY11 insurance margin of 9.1%, despite significantly higher natural peril and reinsurance costs

1. EXECUTIVE SUMMARY

DIVISIONAL HIGHLIGHTS AND DEVELOPMENTS

DIVISIONAL MARGINS

	1H10	2H10	1H11	2H11	FY10	FY11
	%	%	%	%	%	%
Australia Direct	16.9	16.9	19.4	19.7	16.9	19.5
Australia Intermediated	10.2	2.6	14.3	(1.3)	6.6	6.5
New Zealand	15.0	14.3	19.8	(23.3)	14.7	0.4
Total Australia and New Zealand	14.4	11.9	17.8	7.8	13.2	12.9
UK	6.6	(209.4)	(41.3)	(24.4)	(65.5)	(33.6)
Asia	2.9	0.0	(3.8)	(1.4)	1.4	(2.7)
Total Margin	13.4	0.1	12.7	5.4	7.0	9.1

The Group's largest business, **Australia Direct**, reported a 6.5% increase in GWP, supported by encouraging volume growth. The division's insurance margin of 19.5% (FY10: 16.9%) reflected a strong underwriting performance, augmented by higher reserve releases and lower net natural peril claim costs.

Against a tough market backdrop, the underlying performance of **Australia Intermediated** has continued to improve, supplemented by a return to top line growth. A reported insurance margin of 6.5% (FY10: 6.6%) reflected a substantial increase in 2H11 net natural peril claim costs, partially offset by higher than expected reserve releases.

The reported result from IAG's **New Zealand** operations has been impacted by the natural peril costs arising from the Christchurch earthquakes, notably in 2H11, as well as an associated increase in reinsurance expense. At an underlying level the business has continued to perform well.

Higher than anticipated bodily injury claim inflation resulted in a significant loss from the **UK** business, albeit at a lower level than FY10. A reduced 2H11 insurance loss of \$60m was in line with reset expectations and included a \$36m one-off reinsurance expense.

The Group's established businesses in **Asia**, in Thailand and Malaysia, have continued to produce solid operational performances. Related earnings have largely covered significant regional business development costs. An expanded launch of the Group's Indian joint venture occurred in 2H11, and a strategic investment in China was announced after the year end.

CAPITAL

The Group's capital position remains above its long term benchmark, at 1.58 times MCR as at 30 June 2011. The movement since 31 December 2010 reflects the impact of increased natural peril activity in 2H11, the effect of which is expected to unwind in future periods.

IAG's key wholly owned operating insurance subsidiaries continue to hold 'very strong' 'AA-' ratings from Standard & Poor's (S&P). At the Group level, IAG retains an 'A+' rating.

The Group's debt to total tangible capitalisation at 30 June 2011 stood at 33.7%, within the Group's targeted range of 30-40%.

The Group's probability of adequacy for the outstanding claims liability remained at least 90% at 30 June 2011.

Strong performance from Australia Direct, throughout FY11

The Group's capital position remains above benchmark

1. EXECUTIVE SUMMARY

OUTLOOK

The Group expects to report an improved performance in FY12, with guidance provided of:

- GWP growth of 6-9%; and
- An insurance margin of 10-12%.

Premium rate increases are being implemented across the Australian and New Zealand businesses, in response to:

- Increased claims following the recent severe natural peril activity;
- Associated increases in reinsurance costs; and
- Pressure on underlying average claim costs.

Rate increases are predominantly focused on home and property portfolios.

As previously advised, the Group expects total reinsurance costs will exceed the \$620m reported in FY11. This reflects amortisation of reinstatement costs in 1H12 and anticipated rate increases on the catastrophe programme renewal at 1 January 2012.

Divisional expectations in FY12 include:

- A strong, but lower, reported insurance margin from **Australia Direct**, reflecting timing differences associated with the recovery of higher reinsurance costs via increased premiums, and lower reserve releases;
- Further improvement in underlying performance from **Australia Intermediated**, as GWP growth is assisted by recent acquisitions, such as HBF;
- An improved reported margin from **New Zealand**, reflecting maintenance of a strong underlying performance and assuming a return to more normal natural peril levels;
- A significantly improved performance from the **UK**, as the programme of remedial actions drives the business towards a breakeven position; and
- A continued steady performance from established businesses in **Asia**, alongside increased start-up losses in India, consistent with the expanded launch of that business.

Underlying assumptions are:

- Net losses from natural perils in line with budgeted allowances of \$580m;
- No material movement in foreign exchange rates or investment markets; and
- Lower net prior period reserve releases of up to 2% of net earned premium (NEP).

A lower insurance margin is expected in 1H12, followed by a stronger performance in the second half. Contributory factors are:

- Timing effects associated with increased premiums to recoup higher reinsurance costs; and
- The anticipated progressive recovery of the UK business.

As at 30 June 2011, the Group's maximum event retention (MER) for a subsequent event was approximately \$150m. At that date, approximately \$25m of protection remained available under the Group's aggregate reinsurance cover, for events exceeding \$15m in size, over the balance of calendar 2011.

**FY12 insurance margin
guidance of 10-12%**

2. STRATEGY

GROUP STRATEGY

On 14 June 2011, IAG presented its updated corporate strategy to the market.

The following elements are unchanged from the three-year strategic overview presented by management in July 2008:

- The Group's long term ambition;
- The Group's underlying operating strategy; and
- The Group's through-the-cycle financial targets.

IAG's strategic priorities have been reset, to build on the solid platform created over the preceding three years. The Group's priorities are:

- To accelerate growth across the three business units in Australia and New Zealand (Australia Direct, Australia Intermediated and New Zealand) which, in FY11, represented nearly 90% of the Group's GWP. This will encompass initiatives to drive profitable organic growth, while remaining open to any acquisition opportunities that may arise;
- To restore profitability in the UK, building on the remediation actions already well underway in this business; and
- To boost the Group's Asian footprint so that it represents 10% of GWP by 2016, on a proportional basis. This will be achieved through new market entry, increased ownership in existing markets, bolt-on acquisitions in established markets and organic growth.

Strategic priorities reset in June 2011

GROUP STRATEGY & PRIORITIES

REALISING OUR POTENTIAL			
AMBITION	STRATEGY	TARGETS	PRIORITIES
To be the world's most respected group of general insurance companies	Deliver superior performance by actively managing our portfolio and driving operational performance and accountability	Long term financial targets: • ROE \geq 1.5xWACC • Top quartile TSR	Accelerate growth in Australia and New Zealand Restore profitability in UK Boost Asian footprint – 10% of Group GWP by 2016
<i>unchanged</i>	<i>unchanged</i>	<i>unchanged</i>	<i>reset</i>

3. GROUP RESULTS

FINANCIAL PERFORMANCE

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Gross written premium	3,863	3,919	3,936	4,114	7,782	8,050
Gross earned premium	3,872	3,749	3,938	3,920	7,621	7,858
Reinsurance expense	(229)	(327)	(228)	(392)	(556)	(620)
Net earned premium	3,643	3,422	3,710	3,528	7,065	7,238
Net claims expense	(2,335)	(2,737)	(2,359)	(2,730)	(5,072)	(5,089)
Commission expense	(341)	(317)	(336)	(297)	(658)	(633)
Underwriting expense	(689)	(707)	(694)	(651)	(1,396)	(1,345)
Underwriting profit/(loss)	278	(339)	321	(150)	(61)	171
Investment income on technical reserves	210	344	149	340	554	489
Insurance profit	488	5	470	190	493	660
Net corporate expense	8	(4)	0	(1)	4	(1)
Interest	(43)	(45)	(44)	(42)	(88)	(86)
Profit/(loss) from fee based business/share of associates	11	(1)	17	(13)	10	4
Investment income on shareholders' funds	91	5	147	66	96	213
Profit/(loss) before income tax and amortisation	555	(40)	590	200	515	790
Income tax expense	(156)	(56)	(223)	(53)	(212)	(276)
Profit/(loss) after income tax (before amortisation)	399	(96)	367	147	303	514
Non-controlling interests	(58)	(41)	(44)	(44)	(99)	(88)
Profit/(loss) attributable to IAG shareholders (before amortisation)	341	(137)	323	103	204	426
Amortisation and impairment	(12)	(101)	(162)	(14)	(113)	(176)
Profit/(loss) attributable to IAG shareholders	329	(238)	161	89	91	250
Insurance Ratios						
Loss ratio	64.1%	80.0%	63.6%	77.4%	71.8%	70.3%
Immunised loss ratio	65.0%	78.0%	66.4%	75.5%	71.3%	70.8%
Expense ratio	28.3%	30.0%	27.8%	26.9%	29.1%	27.3%
Commission ratio	9.4%	9.3%	9.1%	8.4%	9.3%	8.7%
Administration ratio	18.9%	20.7%	18.7%	18.5%	19.8%	18.6%
Combined ratio	92.4%	110.0%	91.4%	104.3%	100.9%	97.6%
Immunised combined ratio	93.3%	108.0%	94.2%	102.4%	100.4%	98.1%
Insurance margin	13.4%	0.1%	12.7%	5.4%	7.0%	9.1%
Key Financial Metrics						
Reported ROE (average equity) (% pa)	13.8%	(10.2%)	7.2%	4.0%	2.0%	5.6%
Cash ROE (average equity) (% pa)	17.0%	(1.0%)	16.0%	6.1%	8.3%	11.1%
Basic EPS (cents)	15.96	(11.56)	7.79	4.29	4.39	12.08
Cash EPS (cents)	19.65	(1.16)	17.35	6.62	18.48	23.97
DPS (cents)	8.50	4.50	9.00	7.00	13.00	16.00
Probability of adequacy	90%	90%	90%	90%	90%	90%
MCR multiple	2.03	1.92	1.81	1.58	1.92	1.58

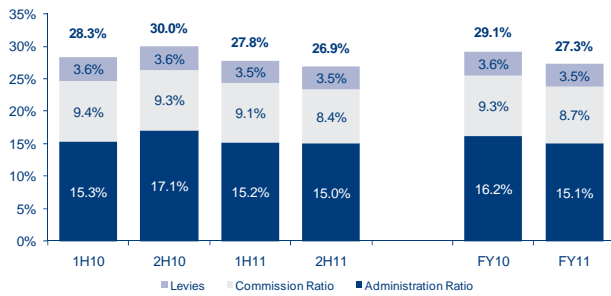
KEY FOREIGN EXCHANGE RATES APPLIED

	Balance Sheet (spot rate)		Income Statement (average rate)	
	FY10	FY11	FY10	FY11
New Zealand dollar	0.8136	0.7720	0.7965	0.7666
British pound	1.7664	1.4996	1.7933	1.6098
Thai baht	0.0362	0.0303	0.0342	0.0331

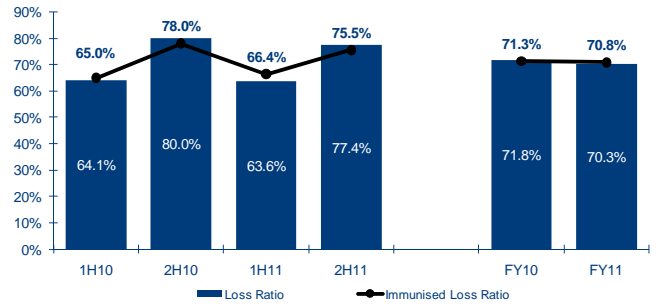
3. GROUP RESULTS

INSURANCE RATIOS

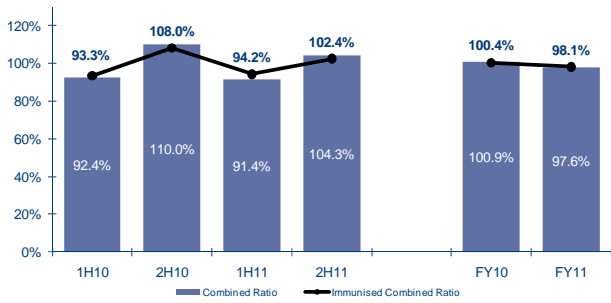
EXPENSE RATIO



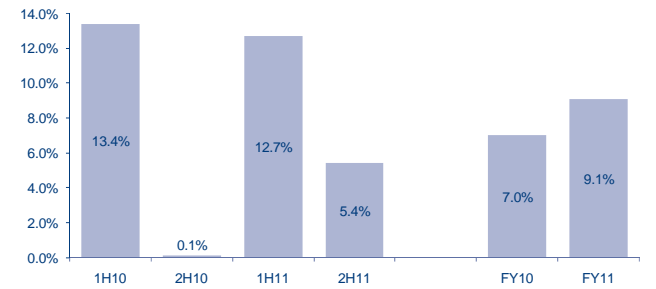
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN (BEFORE TAX)



GWP - FY11 VS. FY10 (A\$M)



3. GROUP RESULTS

PREMIUMS

GWP for the Group was \$8,050m, up 3.4% from \$7,782m in FY10. Reported growth was affected by the strength of the Australian dollar on translation of premium generated offshore, notably in the UK and Asia.

After allowing for the impact of foreign exchange movements, underlying GWP growth in FY11 was 4.8%, with growth of 6.3% recorded in 2H11.

Comparing FY11 GWP with FY10:

- **Australia Direct** grew by 6.5% to \$3,891m, evenly driven by rate increases and volume growth, with particularly strong growth recorded in home and compulsory third party (CTP);
- **Australia Intermediated** (CGU) rose by 8.8% to \$2,463m, derived from a mixture of increased rate, new business and acquisitions. This is the first increase in reported GWP in several years, following significant portfolio remediation activity;
- **New Zealand** reported flat GWP of \$956m, however in local currency terms an increase of 3.4% was recorded. This was largely driven by rate increases in the NZI commercial book, which were skewed to the second half;
- The **UK** business reported a reduction in GWP of over 23%, to \$546m, although in local currency terms the decline was a more modest 14%, as remedial actions led to lower volumes which were partially offset by significant rate increases. GWP in 2H11 was similar to 1H11; and
- In **Asia**, reported GWP of \$189m increased by 2.2%, and by 5.5% in local currency terms. Full year growth was tempered by selective participation in intensified motor pricing activity in Thailand in the second half. On a proportional basis, Asia represented 3.7% of Group GWP in FY11.

INSURANCE MARGIN

The Group's insurance margin was 9.1% (FY10: 7.0%), although the result contained two contrasting halves. A 1H11 margin of 12.7% declined to 5.4% in the natural peril-impacted second half, with higher than expected reserve releases a partially offsetting factor. The Group's insurance profit (and net earned premium) in 2H11 was also significantly influenced by higher reinsurance costs.

The year-on-year insurance profit comparison contains the following notable elements:

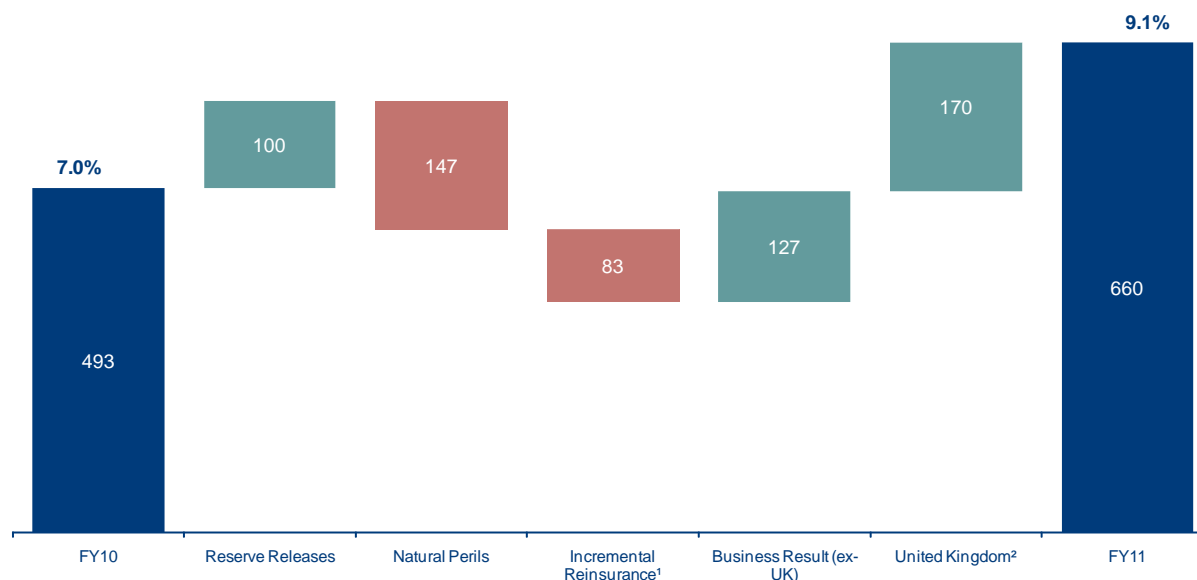
- Increased net natural peril claim costs of \$147m, along with associated incremental reinsurance costs (post-event reinstatement and accelerated amortisation costs) of \$83m;
- Higher than expected net prior period reserve releases of \$328m (FY10: \$228m), reflecting recent favourable claims experience relative to initial assumptions in long tail classes; and
- A considerably reduced loss from the UK, where bodily injury claim inflation has remained an issue, but IAG's remedial actions have begun to contribute to an improved performance.

Underlying GWP grew by 4.8% during FY11

Insurance margin of 9.1% in line with February 2011 guidance

3. GROUP RESULTS

INSURANCE MARGIN - FY11 VS. FY10



¹Incremental reinsurance costs in FY11 include reinstatement costs and accelerated amortisation.

²United Kingdom insurance margin movement excludes yield and natural peril movements, as well as reserve strengthening in FY11 (\$20m) and FY10 (\$25m, excluding one-off charge in 2H10).

On a divisional basis:

- **Australia Direct** has delivered a 23% lift in insurance profit, assisted by increased reserve releases and favourable net natural peril claim costs against allowances. These complemented a strong underlying underwriting performance;
- **CGU** has incurred sharply higher net natural peril claim costs, notably in 2H11, reflecting its greater exposure to Queensland and regional Australia, partially offset by higher than expected reserve releases. The underlying performance of the business has continued to improve;
- **New Zealand's** reduced contribution reflects the substantially higher net natural peril claim costs and reinsurance expenses incurred in 2H11, flowing from the Christchurch earthquake events;
- While still disappointing, the **UK** has produced a much-reduced insurance loss, as remediation actions began to gain traction, particularly in 2H11; and
- The small loss from **Asia** reflects the combination of flood events in Thailand, start-up losses in line with expectations in India and increased business development costs (notably in China). The underlying performance of the established businesses in Thailand and Malaysia was steady.

REINSURANCE EXPENSE

The Group's reinsurance expense of \$620m represents a significant increase on FY10 (\$556m), and includes a 2H11 expense of \$392m. Contributory elements to the higher expense are:

- The amortised cost of reinstatements purchased after the second Christchurch earthquake in February 2011 and the accelerated amortisation of lower layer covers following their utilisation prior to 30 June 2011. A combined cost of \$83m was recognised in 2H11;

Increased reinsurance expense includes reinstatement and accelerated amortisation costs

3. GROUP RESULTS

- Adverse development cover (ADC) in respect of the UK motor book in the 2010 underwriting year, which resulted in a \$36m expense in 2H11. A comparable cover for the underwriting years ending 31 December 2009 and prior resulted in an equivalent expense of \$67m in FY10, included in 2H10's one-off charge; and
- Renewal of the main catastrophe reinsurance protection for 12 months effective 1 January 2011, with rate increases of around 10% on a like-for-like basis.

CLAIMS

The reported loss ratio of 70.3% is lower than FY10 (71.8%). This reflects the combined effect of:

- A \$100m increase in reserve releases;
- A significant increase in net natural peril claim costs, notably in 2H11;
- A favourable movement in the risk free discount rate adjustment;
- A significantly reduced level of UK reserve strengthening associated with bodily injury claim inflation; and
- An increase in 'other claims expense', incorporating:
 - Business volume growth across the Group; and
 - Increased average underlying claim costs in Australia and New Zealand, including an element of post-event claim inflation following a period of severe natural peril activity.

The timing and quantum of the above-named factors have, however, resulted in very different loss ratios in the individual halves of the year, with a 1H11 loss ratio of 63.6% increasing to 77.4% in 2H11.

After allowing for the risk free discount rate adjustment, the immunised loss ratio of 70.8% is slightly lower than FY10 (71.3%).

2H11 loss ratio of 77.4% reflects heavy incidence of natural peril events

NET CLAIMS EXPENSE - FY11 VS. FY10



¹United Kingdom claims expense movement excludes reserve strengthening in FY11 (\$20m) and FY10 (\$25m, excluding one-off charge in 2H10), as well as FY11 natural perils (\$11m).

3. GROUP RESULTS

RESERVE RELEASES

The FY11 net claims expense includes \$328m of prior period reserve releases. This compares to the \$228m reported in FY10, excluding the one-off reserve strengthening identified in 2H10 in respect of the UK motor business.

FY11 reserve releases were higher than originally anticipated owing to the recent favourable experience in Australian long tail classes, such as professional risks, workers' compensation and CTP. The majority of FY11's reserve releases were sourced from the central estimate.

Higher than expected reserve releases derived from Australian long tail classes

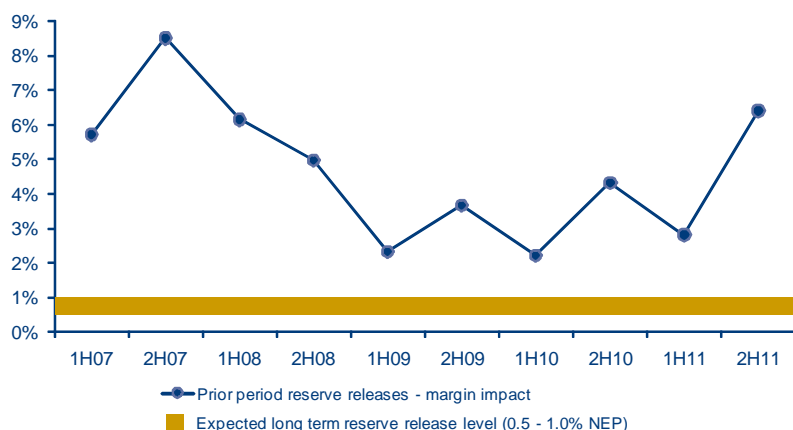
RESERVE RELEASES

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Reserve releases ¹	80	148	103	225	228	328
Impact on insurance margin	2.2%	4.3%	2.8%	6.4%	3.2%	4.5%

¹ Excluding one-off UK strengthening in 2H10.

The Group believes that reserve releases in the range of 0.5% to 1.0% of NEP are a recurring underlying feature of its reported operating results in any one year. This reflects the Group's approach to reserving, with long term inflation assumptions tending to be in excess of actual experience in most years. The Group's current expectation for FY12 is that reserve releases will be up to 2% of NEP.

RESERVE RELEASES – IMPACT ON INSURANCE MARGIN



3. GROUP RESULTS

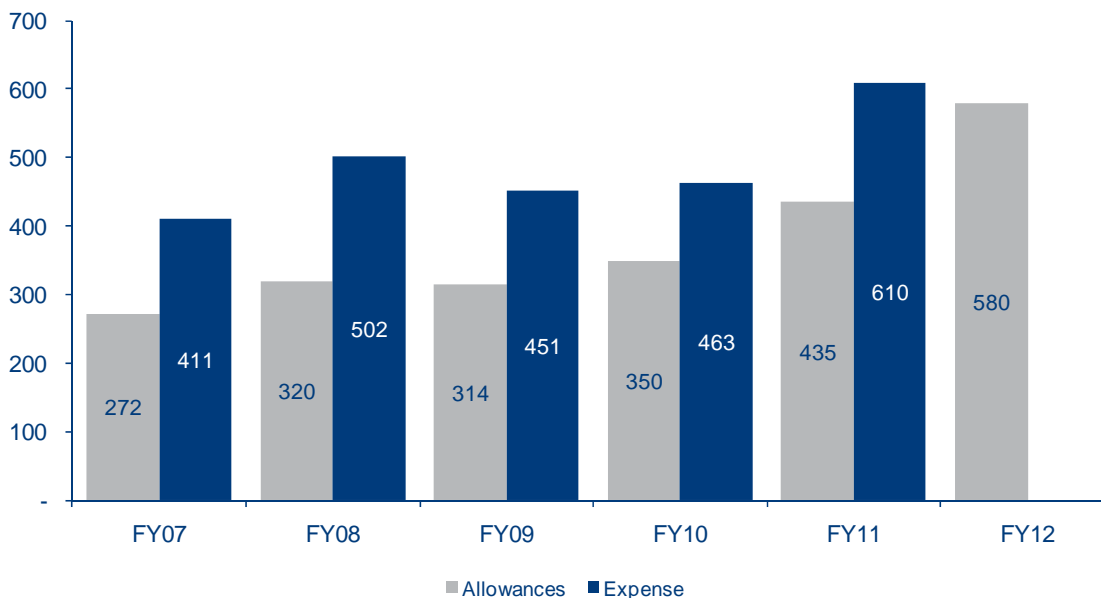
NATURAL PERILS

The FY11 net claims expense included \$610m (FY10: \$463m) of losses from natural perils (net of reinsurance), compared to allowances of \$435m. The net effect of natural perils (after allowances) was a negative impact on reported insurance margin of 2.4% (FY10: -1.6%).

The Group has increased its natural peril allowances in recent years in the face of increased peril activity. Allowances for FY12 are \$580m, a 33% increase over allowances held at the beginning of FY11.

Natural peril allowances exceeded by \$175m (2.4% margin impact)

NATURAL PERILS – CLAIM COSTS AND ALLOWANCES



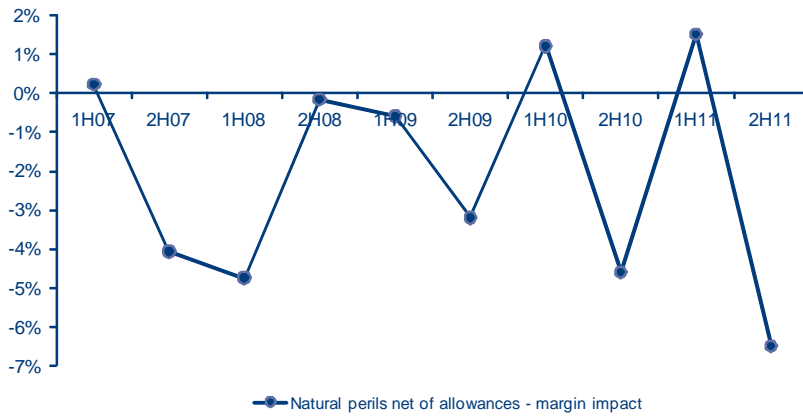
IAG's catastrophe reinsurance cover operates on a calendar year basis and comprises several key elements. It has served the Group well during FY11 and has materially reduced net claim costs incurred during the year.

Key components of this cover are:

- A main programme, providing cover up to \$4.1bn with the Group retaining the first \$250m of each loss;
- A range of lower layer covers, including those for second and third events, reducing the Group's maximum event retention (MER); and
- An aggregate cover providing protection against events larger than \$15m.

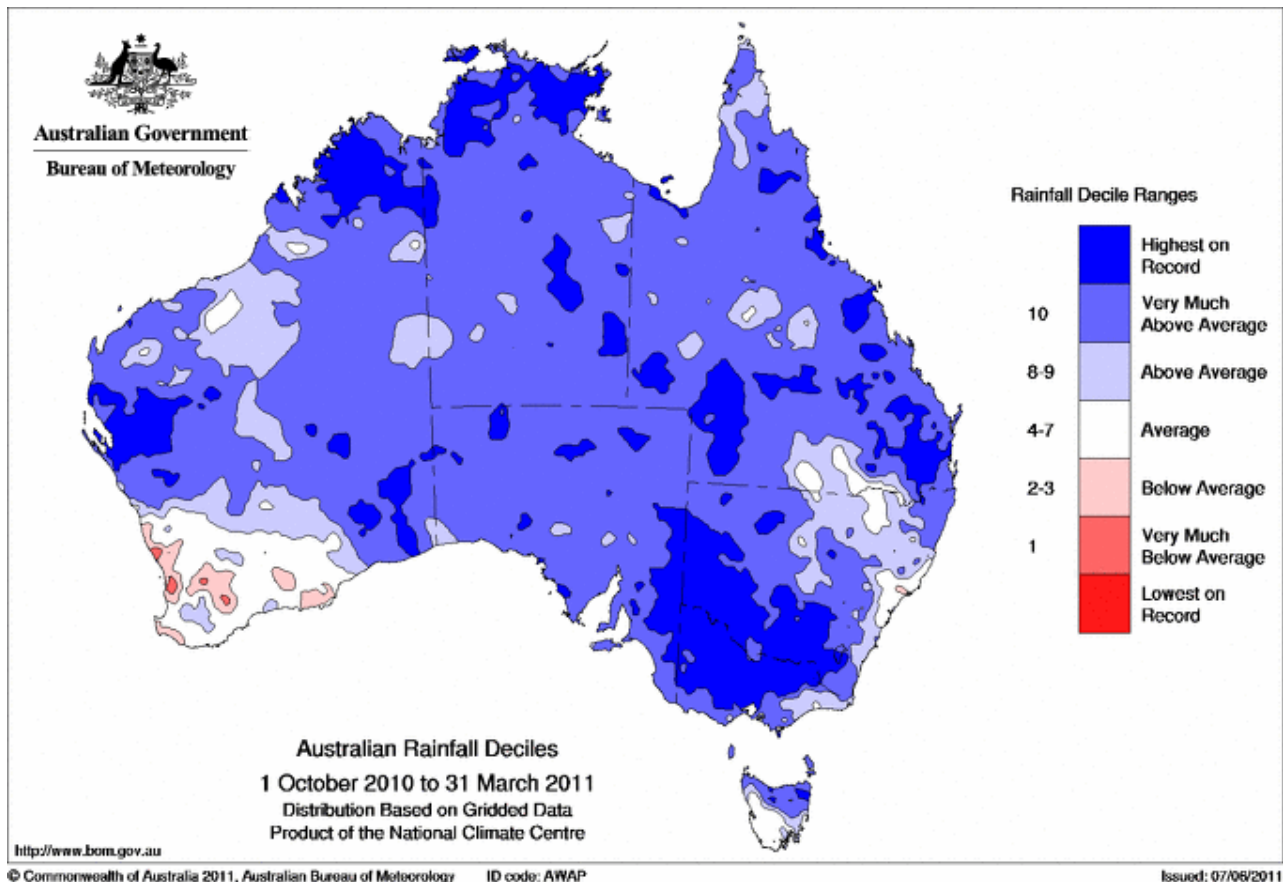
3. GROUP RESULTS

NATURAL PERILS – IMPACT ON INSURANCE MARGIN



FY11 has been a year of extreme natural peril activity, with Australia experiencing its wettest September, December and March, and second wettest October and February, since 1900.

AUSTRALIAN RAINFALL (1 OCTOBER 2010 TO 31 MARCH 2011)



While 1H11 included events such as the first earthquake in Christchurch (September 2010) and a number of severe storms in both Australia and New Zealand, the Group benefited from significant reinsurance protection during the period, notably via lower layer covers including the aggregate.

3. GROUP RESULTS

The opening weeks of 2H11 saw a sequence of major peril events, most notably the severe storms in Queensland, Tropical Cyclone Yasi in northern Queensland and the second, and more severe, earthquake in Christchurch. The half concluded with a third earthquake in Christchurch. While materially reduced by reinsurance protection, the net claims cost from natural peril events in 2H11 significantly exceeded allowances for the period.

Attritional events also increased over the course of the year, and amounted to \$172m in net claim costs in FY11, an increase of nearly 50% over FY10 (\$116m).

FY11 NATURAL PERIL COSTS BY EVENT

	Net Cost A\$m
Severe weather - South East Australia (September 2010) ¹	-
Earthquake - Christchurch (September 2010) ¹	-
Heavy snow and wind - New Zealand (September 2010) ¹	-
Severe thunderstorms - Australia (October 2010)	12
Severe storms - South & East Australia (November 2010) ¹	-
Severe storms and wind - South & East Australia (December 2010) ¹	-
Severe storms - NSW & Queensland (November/December 2010) ²	1
Severe storms - Brisbane & South East Australia (December 2010) ²	10
Tropical Cyclone Tasha and monsoonal rain - North & East Australia (December 2010)	18
Severe winter weather - UK (December 2010)	11
Heavy rains and storms - Brisbane/Toowoomba (January 2011) ²	108
Severe storms - Victoria (January 2011)	26
Tropical Cyclone Bianca - Western Australia (January 2011)	16
Ex-Tropical Cyclone Wilma - New Zealand (January 2011)	6
Tropical Cyclone Yasi - Queensland (February 2011) ²	119
Storms and severe weather - Victoria & Southern Australia (February 2011) ²	10
Bushfires - Western Australia (February 2011)	6
Earthquakes - Christchurch (February & June 2011) ²	83
Rain and thunderstorms - South Australia, NSW & Victoria (March 2011)	12
Other events	172
Total	610

¹Subject to full reinsurance recovery.

²Subject to partial reinsurance recovery.

The high number of qualifying events during 2H11 has resulted in the Group's aggregate reinsurance cover, of \$150m in excess of \$150m, being heavily utilised. As at 30 June 2011, approximately \$25m of protection remained under this cover, for events exceeding \$15m in size, and the Group's MER for a subsequent event was approximately \$150m. The precise impact of any such event will be dependent on the development of earlier events, and their impact on individual reinsurance covers.

It is the Group's current expectation that the MER will be approximately \$150m upon renewal of the catastrophe reinsurance programme at 1 January 2012.

3. GROUP RESULTS

NATURAL PERIL CLAIM COSTS VS. ALLOWANCES

	1H10	2H10	1H11	2H11	FY10	FY11
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Natural peril claim costs	(121)	(342)	(134)	(476)	(463)	(610)
Natural peril allowances	166	184	188	247	350	435
Impact on insurance profit	45	(158)	54	(229)	(113)	(175)
Impact on insurance margin	1.2%	(4.6%)	1.5%	(6.5%)	(1.6%)	(2.4%)

EXPENSES

The Group's reported expense ratio improved to 27.3% (FY10: 29.1%), reflecting the combined effect of increased net earned premium and reduced expenditure.

Excluding government levies, the Group's administration ratio has improved from 16.2% in FY10 to 15.1% in FY11.

INVESTMENT INCOME ON TECHNICAL RESERVES

Investment income on technical reserves for FY11 was \$489m, compared to \$554m in FY10. Allowing for the movement in the discount rate adjustment following an increase in interest rates, the Group continued to generate over 100bps of return above the risk free (3-year government bond) rate, across the entire technical reserves portfolio. The average duration of the portfolio continues to be aligned with the Group's claims liability, at approximately three years.

Credit spread volatility eased during the year. The FY11 insurance profit contained a negligible impact from credit spreads, compared to a favourable \$33m effect in FY10 as spreads narrowed during that year.

Negligible credit spread impact in FY11

PROFIT/(LOSS) FROM FEE BASED BUSINESS/SHARE OF ASSOCIATES

The combined profit of \$4m (FY10: \$10m profit) from fee based business and associates comprises:

- \$6m (FY10: \$8m) of fee based income; and
- A \$2m loss (FY10: \$2m profit) in respect of share of associates.

The decrease in profit from fee based business is largely explained by the lower contribution from CGU.

The Group's Asian interests represent a large portion of the share of earnings from associates, and comprise:

- The 49% interest in the Malaysian joint venture, AmG Insurance, which has continued to perform well; and
- A 26% interest in SBI General in India, which is in start-up.

The combined contribution from these two businesses was a loss of \$3m (FY10: \$3m profit), after allocation of \$10m of regional support and development costs (FY10: \$7m).

Indian start-up losses and higher Asian business development costs

3. GROUP RESULTS

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

Investment income on shareholders' funds amounted to a profit of \$213m, compared to \$96m in FY10. The improved FY11 outcome reflects:

- The absence of the \$96m exchange right reversal in respect of the Reset Exchangeable Securities (RES), as identified in 1H10 on amendment of the RES to an on-balance sheet Tier 1 instrument; offset by
- Improved equity market returns, despite a weaker contribution in 2H11.

In line with its previously stated intent, the Group continued to increase its weighting to growth assets (equities and alternatives) within shareholders' funds. This weighting has moved from approximately 22% at the end of FY09, to over 41% by 30 June 2011.

Increased shareholders' funds income owing to absence of RES adjustment

INVESTMENT INCOME ON SHAREHOLDERS' FUNDS

	1H10	2H10	1H11	2H11	FY10	FY11
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Shareholders' funds investment income	187	5	147	66	192	213
RES revaluation	(96)	-	-	-	(96)	-
Total investment income on shareholders' funds	91	5	147	66	96	213

TAX EXPENSE

The Group reported a tax expense of \$276m in FY11, compared to \$212m in FY10, which represents an effective tax rate (pre-amortisation) of 34.9%. The tax rate approximates 30% after allowing for the non-recognition for accounting purposes of any future tax benefit in respect of the UK operating losses. As at 30 June 2011, unrecognised tax losses in respect of the UK stood at \$217m (£145m).

Effective tax rate of 35% reflects non-recognition of UK losses

NON-CONTROLLING INTERESTS

The \$88m non-controlling interests in the Group's profit compares to \$99m in FY10. The decrease reflects lower earnings from the Group's main joint venture, the 70%-owned Insurance Manufacturers of Australia Pty Limited (IMA), whose short-tail business lines form part of Australia Direct.

Lower non-controlling interests reflects reduced IMA result

AMORTISATION

The FY11 amortisation charge of \$176m compares to \$113m reported in FY10. The charges in both years were inflated by write-downs of goodwill and intangibles associated with the UK business, amounting to \$150m in FY11 and \$87m in FY10. These charges are a direct reflection of the deterioration in UK profitability associated with the bodily injury claims issue in that market.

Amortisation includes \$150m UK impairment recognised in 1H11

EARNINGS PER SHARE

Basic earnings per share (EPS) in FY11 was 12.08 cents per share (cps), compared to 4.39cps in FY10, an increase of approximately 175%. On a diluted basis, EPS was 12.01cps (FY10: 4.36cps). Basic EPS was calculated on weighted average capital on issue in FY11 of 2,067m shares (excluding treasury shares).

3. GROUP RESULTS

ORDINARY ISSUED CAPITAL

	Shares (m)
Balance at the beginning of the financial year	2,079
Balance at the end of the half year	2,079
Average weighted shares on issue¹	2,067

¹Basic EPS calculated after exclusion of treasury shares held in trust.

Cash EPS was 23.97cps, compared to 18.48cps in FY10, an increase of nearly 30%. Cash earnings are used for the purposes of targeted ROE and dividend payout policy, and are defined as:

- Net profit after tax attributable to IAG shareholders;
- Plus amortisation and impairment of acquired identifiable intangibles; and
- Excluding any unusual items.

Unusual items in FY11 included the cost of the ADC reinsurance entered into in the UK, as well as identification of the future tax benefit on the UK operating loss which is expected to be recovered as profitability is restored in that business. In accordance with accounting standard requirements, this tax benefit has not been recognised in the reported FY11 result.

Cash EPS of 23.97 cents, up nearly 30%

CASH EARNINGS

	FY11 A\$m
Net profit after tax	250
Intangible amortisation and impairment	176
Unusual items:	
- UK adverse development cover (ADC)	36
- UK tax benefits not recognised	34
Cash earnings	496
Dividend payable	333
Cash payout ratio	67.1%

DIVIDENDS

IAG's policy is to pay dividends equivalent to approximately 50–70% of reported cash earnings in any given financial year.

The Board has determined to pay a fully franked final dividend of 7.0 cents per ordinary share (2H10: 4.5 cents). This brings the full year dividend to 16.0 cents per share (FY10: 13.0 cents), fully franked, an increase of 23% over FY10. This equates to a payout ratio of 67.1% of cash earnings for the year.

The final dividend is payable on 5 October 2011 to shareholders registered as at 5pm on 7 September 2011.

The dividend reinvestment plan (DRP) will not be operational for the final dividend.

23% increase in full year dividend, equates to payout of 67.1% of cash earnings

3. GROUP RESULTS

The listed entity had distributable retained earnings of \$848m as at 30 June 2011. At this date, and after allowance for payment of the final dividend, the Group's franking balance was \$408m, giving the capacity to fully frank a further \$952m of distributions.

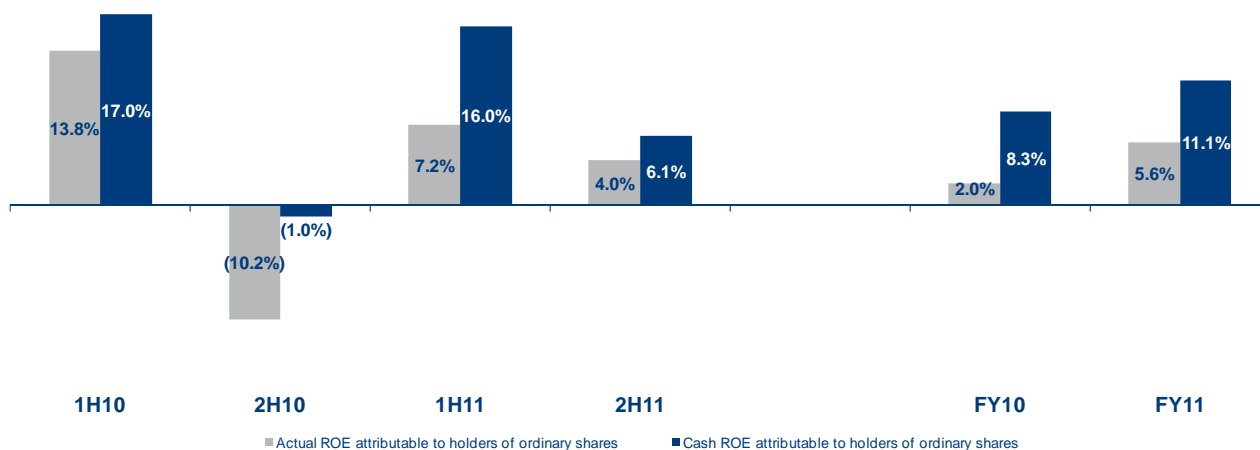
RETURN ON EQUITY

The Group targets a cash ROE of at least 1.5 times WACC through the cycle. This return is based on net profit after tax attributable to IAG shareholders, adjusted for amortisation of intangibles and unusual items. Based on the Group's historic cost of capital and current business mix, this target equates to a cash ROE of approximately 15%.

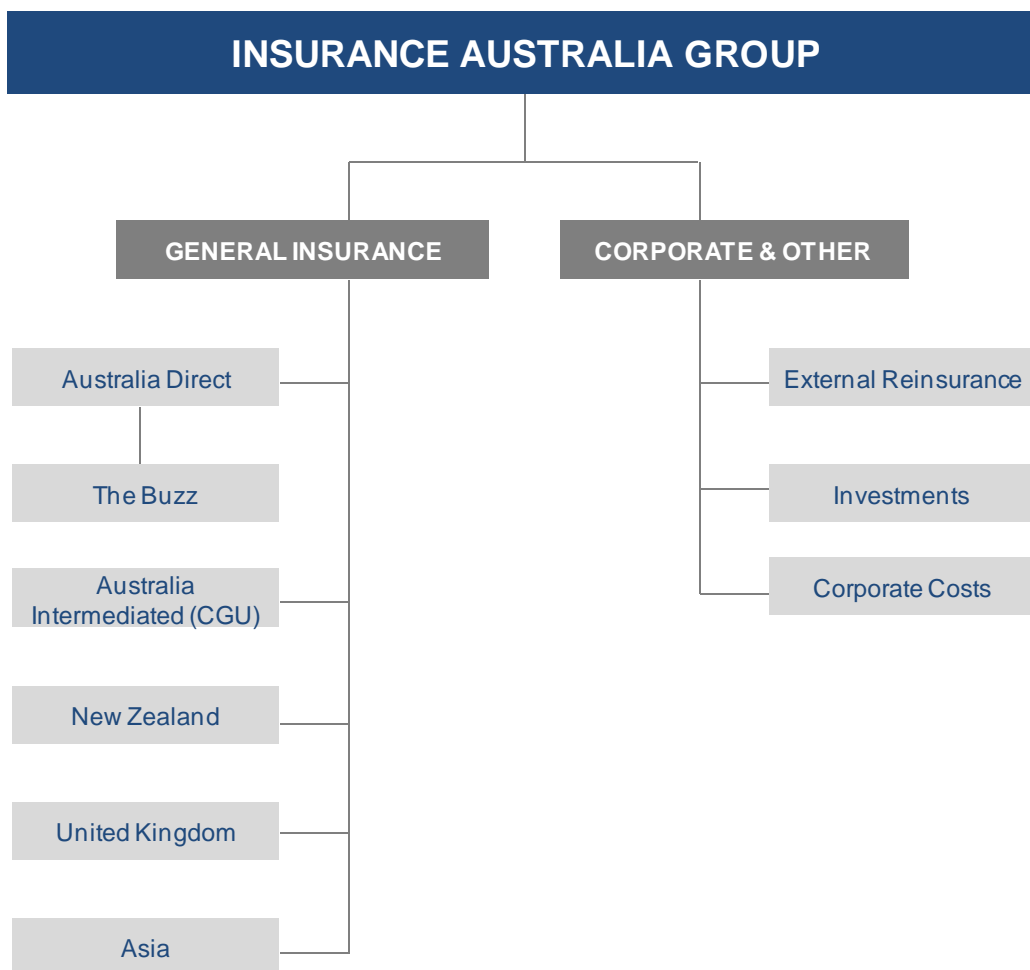
In FY11, the Group reported a cash ROE of 11.1%, compared to 8.3% in FY10.

Cash ROE of 11.1% (FY10: 8.3%)

RETURN ON EQUITY (ANNUALISED)



4. DIVISIONAL OVERVIEW



FY11 DIVISIONAL FINANCIAL PERFORMANCE

	Australia Direct A\$m	Australia Intermediated A\$m	New Zealand A\$m	UK A\$m	Asia A\$m	Corporate & Other A\$m	Total A\$m
Gross written premium	3,891	2,463	956	546	189	5	8,050
Gross earned premium	3,779	2,340	947	602	184	6	7,858
Reinsurance expense	(185)	(202)	(119)	(63)	(35)	(16)	(620)
Net earned premium	3,594	2,138	828	539	149	(10)	7,238
Net claims expense	(2,475)	(1,415)	(578)	(535)	(96)	10	(5,089)
Commission expense	(75)	(330)	(104)	(94)	(29)	(1)	(633)
Underwriting expense	(623)	(435)	(157)	(102)	(29)	1	(1,345)
Underwriting profit/(loss)	421	(42)	(11)	(192)	(5)	-	171
Investment income on tech reserves	281	182	14	11	1	-	489
Insurance profit/(loss)	702	140	3	(181)	(4)	-	660
Profit/(loss) from fee based business/ share of associates	-	4	1	2	(3)	-	4
Total divisional results	702	144	4	(179)	(7)	-	664
Insurance Ratios							
Loss ratio	68.9%	66.2%	69.8%	99.3%	64.4%		70.3%
Expense ratio	19.4%	35.7%	31.6%	36.3%	39.0%		27.3%
Commission ratio	2.1%	15.4%	12.6%	17.4%	19.5%		8.7%
Administration ratio	17.3%	20.3%	19.0%	18.9%	19.5%		18.6%
Combined ratio	88.3%	101.9%	101.4%	135.6%	103.4%		97.6%
Insurance margin	19.5%	6.5%	0.4%	(33.6%)	(2.7%)		9.1%

5. AUSTRALIA DIRECT

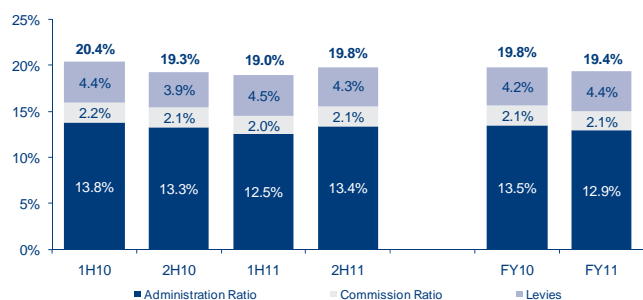
FINANCIAL PERFORMANCE

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Gross written premium	1,779	1,874	1,919	1,972	3,653	3,891
Gross earned premium	1,733	1,778	1,877	1,902	3,511	3,779
Reinsurance expense	(74)	(73)	(71)	(114)	(147)	(185)
Net earned premium	1,659	1,705	1,806	1,788	3,364	3,594
Net claims expense	(1,158)	(1,280)	(1,201)	(1,274)	(2,438)	(2,475)
Commission expense	(36)	(35)	(37)	(38)	(71)	(75)
Underwriting expense	(302)	(294)	(307)	(316)	(596)	(623)
Underwriting profit	163	96	261	160	259	421
Investment income on technical reserves	118	192	89	192	310	281
Insurance profit	281	288	350	352	569	702

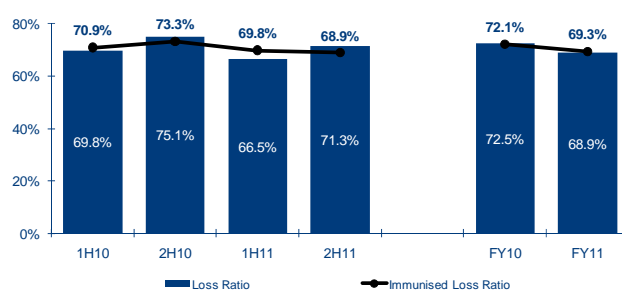
Insurance Ratios						
Loss ratio	69.8%	75.1%	66.5%	71.3%	72.5%	68.9%
Immunised loss ratio	70.9%	73.3%	69.8%	68.9%	72.1%	69.3%
Expense ratio	20.4%	19.3%	19.0%	19.8%	19.8%	19.4%
Commission ratio	2.2%	2.1%	2.0%	2.1%	2.1%	2.1%
Administration ratio	18.2%	17.2%	17.0%	17.7%	17.7%	17.3%
Combined ratio	90.2%	94.4%	85.5%	91.1%	92.3%	88.3%
Immunised combined ratio	91.3%	92.6%	88.8%	88.7%	91.9%	88.7%
Insurance margin	16.9%	16.9%	19.4%	19.7%	16.9%	19.5%

INSURANCE RATIOS

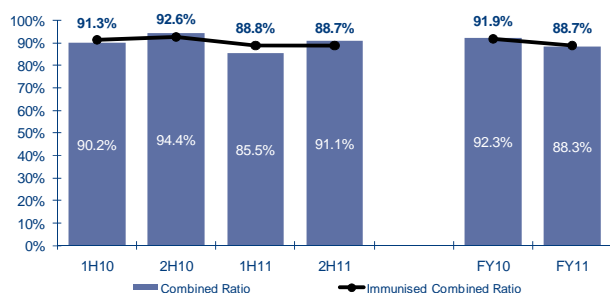
EXPENSE RATIO



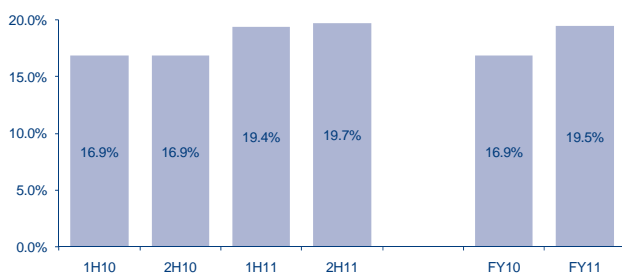
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



5. AUSTRALIA DIRECT

EXECUTIVE SUMMARY

Australia Direct is IAG's largest business, contributing over 48% of the Group's GWP in FY11. It continued to perform strongly. The business concentrates on direct personal lines insurance products, including compulsory third party (CTP), and operates with single pricing and claims platforms, but with State-based brands.

GWP growth of 6.5% was recorded, encompassing above system volume growth and moderate rate increases. GWP has increased in all States and in all product areas, with the exception of Queensland CTP.

Australia Direct produced an insurance profit of \$702m, an increase of over 23% on the \$569m reported in FY10. This equates to an insurance margin of 19.5% (FY10: 16.9%), reflecting a strong underlying underwriting performance achieved amidst increased competitive pressures. Increased reserve releases and favourable net natural peril claim costs against allowances were also contributory factors.

A margin of 19.7% was reported in 2H11, despite significant natural peril claim activity in the opening quarter of calendar 2011 and higher reinsurance costs. The second half benefited from higher than expected reserve releases, notably from the NSW CTP portfolio.

In FY12, Australia Direct expects to record further GWP growth, underpinned by volume growth, ongoing product initiatives and rate increases to cover the higher cost of reinsurance. A strong, but lower, insurance margin is anticipated, influenced by timing differences associated with the pass-through of increased reinsurance costs and lower anticipated reserve releases.

PREMIUMS

Australia Direct's premium growth during 2H11 built on the solid momentum evident since FY09. 2H11 GWP growth was more subdued than that evident in 1H11, at 5.2%, but continued to be derived from a relatively even mixture of volume and rate factors.

Overall GWP for FY11 amounted to \$3,891m, a 6.5% increase over FY10 (\$3,653m).

Premium growth was realised by all products and in all States, with the specific exception of Queensland CTP. This growth was supported by a range of initiatives implemented across the year, including a major brand refresh campaign, 'Experience the Difference', and the introduction of a new Home Plus product.

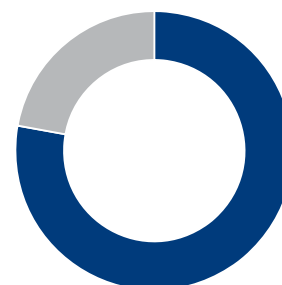
Significant progress continues to be made in Australia Direct's online capability with several initiatives introduced over the past 12 months contributing to GWP growth. While still accounting for a relatively small proportion of revenue, internet sales have trebled since mid-2009.

Short tail GWP growth in FY11 was 4.7%, with 2H11 growth of 3.1% compared to 6.5% in 1H11, as the impact of rate increases moderated. In response to higher reinsurance costs, the scale of rate rises increased towards the end of 2H11, particularly in the home portfolio. Home GWP increased by 9.8% compared to FY10, whereas GWP growth in the more competitive motor segment was 1.8%.

Overall short tail volume growth was broadly consistent across the year at 3.6%, with higher growth sourced from home. Good growth was achieved in preferred risk areas in both the home and motor portfolios.

Strong business performance, with improved full year margin of 19.5%

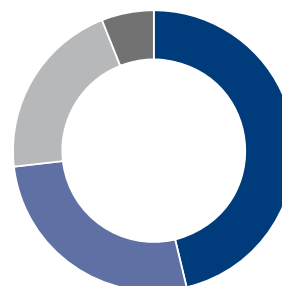
FY11 GWP BY TAIL



■ Short Tail
■ Long Tail

GWP growth of 6.5%, driven by even mixture of volume and rate

FY11 GWP BY CLASS



■ Motor
■ Home
■ CTP
■ Other

5. AUSTRALIA DIRECT

In FY11, CTP products sold in NSW, the ACT and Queensland registered combined GWP growth of 13.1%, with 2H11 growth only slightly lower than that achieved in 1H11. Premium growth was derived evenly from price and volume.

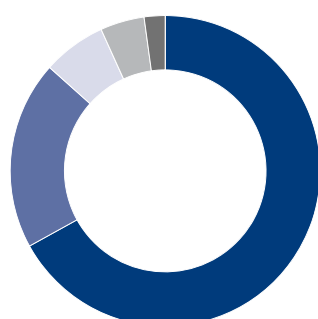
In the NSW CTP market, rates were increased by 7% on 1 July 2010 and a further 4% on 1 April 2011.

Total CTP policies in force grew by 4.8%. Increased volume in the NSW and ACT markets was slightly offset by lower volume in Queensland. As a result of scheme changes implemented on 1 October 2010, Australia Direct has decided to restrict marketing efforts in the Queensland CTP market.

Australia Direct's share of NSW CTP registrations (on a 12-month rolling average basis) was around 41% and has improved relative to FY10. On a similar basis, Queensland market share stood at approximately 6%, but has continued to trend down since the aforementioned scheme changes in October 2010. Australia Direct remains the sole provider of CTP products in the ACT market.

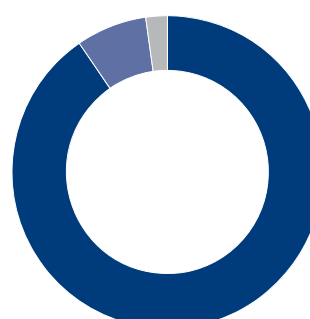
Due renewal levels have remained relatively stable compared to FY10, at 89% for motor, 94% for home and 79% for CTP.

FY11 GWP BY STATE



- NSW/ACT
- Victoria
- Queensland
- WA
- SA/Tas/NT

FY11 LONG TAIL GWP BY STATE



- NSW/ACT
- Queensland
- Other

GWP GROWTH BY CLASS

	1H10	2H10	1H11	2H11	FY10	FY11
Motor	3.7%	3.3%	3.3%	0.3%	3.3%	1.8%
Home	11.8%	15.2%	11.1%	8.6%	13.5%	9.8%
Total Short Tail¹	6.3%	7.3%	6.5%	3.1%	6.8%	4.7%
Long Tail ¹	13.2%	12.3%	13.4%	12.9%	12.7%	13.1%
Total GWP²	7.8%	8.4%	7.9%	5.2%	8.1%	6.5%

¹Excluding Retail Business Insurance and The Buzz.

²Including Retail Business Insurance and The Buzz.

5. AUSTRALIA DIRECT

REINSURANCE EXPENSE

Reinsurance expense of \$185m in FY11 was approximately 26% higher than FY10 (\$147m), with all of the increase occurring in the second half of the financial year. This reflects the combined effect of:

- Increased catastrophe cover costs stemming from the 1 January 2011 renewal;
- Approximately \$20m of incremental reinsurance expense cost associated with reinstatements and accelerated amortisation of utilised lower layer covers; and
- Overall portfolio growth.

A further increase in reinsurance expense is anticipated in FY12, as the balance of reinstatement costs (for the period to 31 December 2011) is expensed and an expected further increase in catastrophe cover costs is incurred upon renewal at 1 January 2012.

CLAIMS

Australia Direct has reported an improved loss ratio of 68.9% for FY11, compared to FY10 (72.5%), with relatively stable interest rates causing modest change in the risk free discount rate adjustment. On an immunised basis the FY11 ratio is 69.3% (FY10: 72.1%).

The improved full year ratio is partly explained by increased reserve releases during FY11 and a favourable net natural peril claim cost impact compared to FY10. In a year of severe natural peril activity, Australia Direct benefited from recoveries under the Group's catastrophe reinsurance programme, which had a positive impact on both halves.

The difference between the 2H11 reported loss ratio of 71.3%, and the equivalent 66.5% in 1H11, is largely explained by the adverse movement in the discount rate adjustment between halves.

On an immunised basis, the 2H11 loss ratio of 68.9% compares favourably with 1H11 (69.8%), aided by higher reserve releases and despite lower net earned premium arising from increased reinsurance costs.

The higher 'other claims expense' reflects the combined effect of:

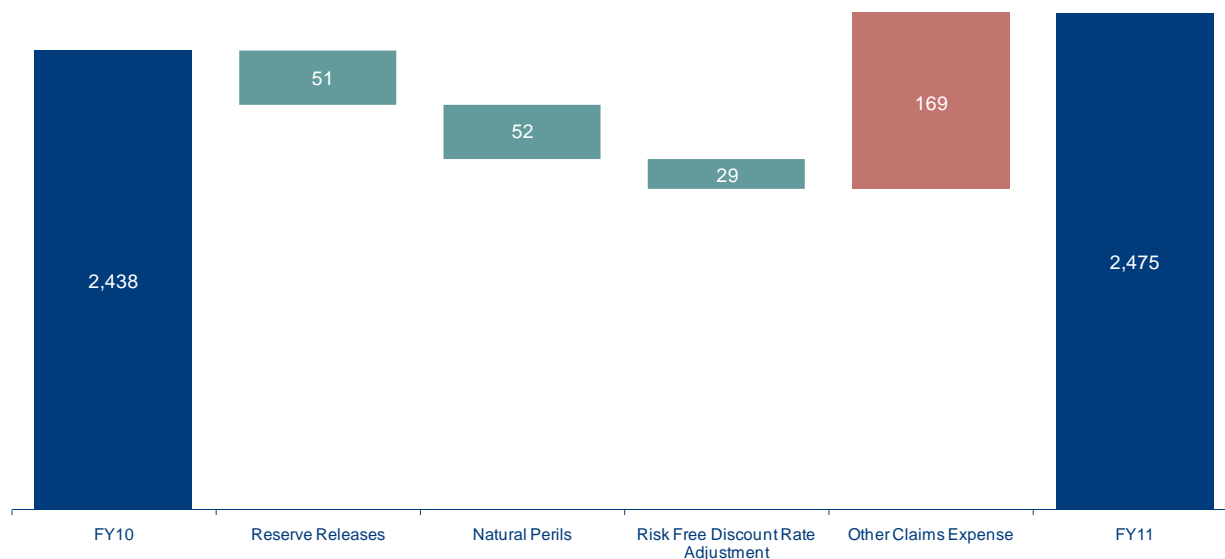
- Increased claim volumes associated with business growth; and
- Increased average underlying claim costs (for further details refer 'Claim Experience' section).

Sharply higher 2H11 reinsurance expense, owing to higher catastrophe rates and incremental costs

Improved loss ratio of 68.9%, assisted by increased reserve releases

5. AUSTRALIA DIRECT

NET CLAIMS EXPENSE – FY11 VS. FY10 (A\$M)



RESERVE RELEASES

Reserve releases of \$158m were \$51m higher than those in FY10, and included a net release of \$108m in 2H11. FY11 reserve releases were higher than originally anticipated, and were sourced largely from the NSW CTP portfolio where recent experience has proved favourable against existing underlying assumptions.

RESERVE RELEASES

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Reserve releases	35	72	50	108	107	158
Impact on insurance margin	2.1%	4.2%	2.8%	6.0%	3.2%	4.4%

NATURAL PERILS

Losses from natural perils (net of reinsurance) totalled \$169m, which was \$42m lower than allowances for the year. The net cost was \$52m lower than that incurred in FY10, despite an extensive number of major natural peril events across the year, and particularly in the opening two months of 2H11.

These events included:

- Severe weather in South East Australia (September 2010);
- Severe thunderstorms in Australia (October 2010);
- Severe storms and wind in South and East Australia (November & December 2010);
- Severe storms in Brisbane and South East Australia (December 2010);
- Tropical Cyclone Tasha (December 2010);
- Heavy rains and storms in Brisbane and Toowoomba (January 2011);

**Lower natural peril costs,
despite severe peril activity**

5. AUSTRALIA DIRECT

- Severe storms in Victoria (January 2011);
- Tropical Cyclone Bianca (January 2011);
- Storms and severe weather in Victoria (February 2011); and
- Bushfires in Western Australia (February 2011).

The impact of these events was materially reduced by recoveries under the Group's reinsurance cover.

While a large number of the events occurred in 2H11, it should be noted that several of these affected Queensland, where Australia Direct has a relatively low market share which is concentrated in the south-east corner of the State.

Net natural peril costs in 2H11 were significantly lower than those in the corresponding half of FY10, which contained substantial hailstorm events in Melbourne and Perth.

NATURAL PERIL COSTS

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Natural perils	(60)	(161)	(74)	(95)	(221)	(169)
Natural perils allowance	81	80	91	120	161	211
Impact on insurance profit	21	(81)	17	25	(60)	42
Impact on insurance margin	1.3%	(4.7%)	0.9%	1.4%	(1.8%)	1.2%

CLAIM EXPERIENCE

Excluding natural perils, the FY11 short tail claim experience was characterised by:

- Stable frequency, compared to FY10;
- An increase in average motor comprehensive claim cost of over 4% compared to FY10, driven by an increase in total loss claims and repair costs within collision claims;
- Some post-event claim inflation, notably in Victoria and Western Australia where supplier capacity issues have been experienced following the severe storms of March 2010; and
- A greater than 10% increase in home average claim cost relative to FY10, owing to a number of severe fire and high value water claims.

In NSW, CTP claim frequency has stabilised following past legislative amendments. These have contributed to increased confidence in the interpretation of emerging claim experience.

The ACT CTP portfolio has benefited from fewer claim lodgements during FY11, although the reduction appears to only apply to very small claims. Large claims in Queensland CTP continue to add volatility to the results for that portfolio.

Superimposed inflation in all markets currently appears to be manageable.

Stable frequency within non-peril claim experience

5. AUSTRALIA DIRECT

EXPENSES

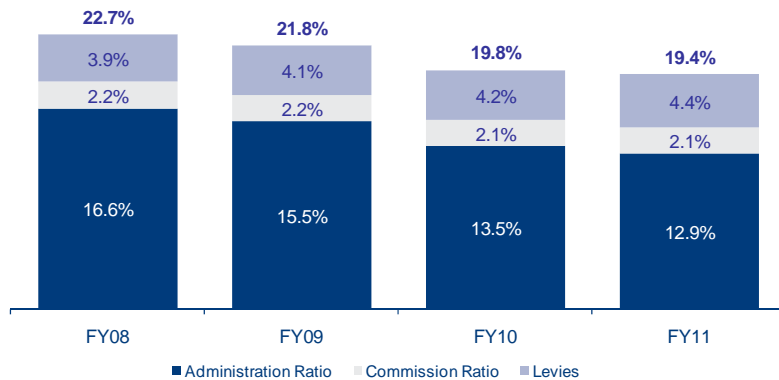
Australia Direct has maintained an improving trend in its expense ratio, with the combined effect of earned rate increases and a range of cost saving initiatives continuing to drive the ratio lower. The total expense ratio of 19.4% for FY11 compares with 19.8% in FY10, including levies.

The 2H11 ratio of 19.8% was adversely influenced by increased reinsurance costs in the half, including those of an incremental nature, which served to reduce reported net earned premium in that six-month period, compared to 1H11.

Excluding government levies, Australia Direct's administration expense ratio improved to 12.9% in FY11, from 13.5% in FY10 and 15.5% in FY09.

Improved expense ratio continues to be driven by earned rate increases and cost initiatives

EXPENSE RATIO



INSURANCE PROFIT

Australia Direct has reported an insurance profit for FY11 of \$702m, which represents an increase of 23.4% over FY10 (\$569m). This equates to an improved insurance margin of 19.5%, compared to 16.9% in FY10.

This outcome reflects:

- A strong underwriting performance that is underpinned by earned premium and volume growth, coupled with good cost control;
- Higher reserve releases; and
- A lower net natural peril claim cost.

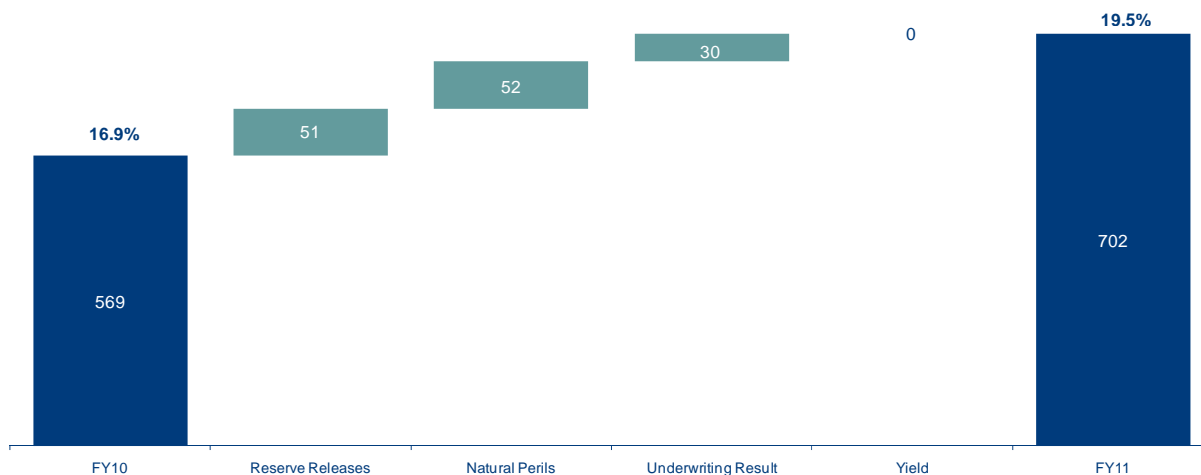
Australia Direct's 2H11 margin of 19.7% was slightly higher than the 19.4% reported for 1H11, as higher reserve releases were largely offset by increased reinsurance costs.

In line with the Group as a whole, the narrowing of credit spreads had a negligible effect on the reported insurance margin in FY11, compared to a modestly positive impact in FY10.

Strong underwriting performance driving higher margin

5. AUSTRALIA DIRECT

INSURANCE PROFIT – FY11 VS. FY10 (A\$M)



THE BUZZ

The Buzz is an online insurance business in Australia offering car, home and landlord insurance. It is a 'challenger brand' in the market and provides a unique opportunity to meet the needs of a rapidly growing customer segment that prefers to interact entirely online.

Launched in May 2009, The Buzz is an end-to-end online insurer with a low cost operating model. Customers can buy, change, renew, cancel and claim online, 24/7. Live online chat is available to support customers with enquiries, sales support and claims processing. 100% of sales are transacted online and 85% of claims are lodged online.

The online insurance market is highly competitive. Above the line marketing spend continues to increase, however, paid search remains the most efficient form of acquisition cost.

The Buzz's operating results are included within those of Australia Direct. Given the business is still in the start-up phase, its results have had a modest negative impact in FY11. While its results have been included with those of Australia Direct since inception, The Buzz became part of Australia Direct with effect from 1 August 2011.

MARKET ENVIRONMENT, REGULATION AND REFORM

Current economic conditions suggest Australia is operating under a two-speed economy, with the mining sector doing well and the rest of the country faring less favourably. The household savings ratio is increasing, retail spending is down and consumer sentiment is weak. As a result it is anticipated that the short term demand for insurance will remain flat. However, recent severe weather events have raised consumer awareness about the need for insurance, particularly home and contents.

Competition in personal lines insurance remains high, with:

- New entrants with different business models continuing to enter the market;
- Increased use of non-insurance benefits to market insurance, such as frequent flyer points, roadside assistance and fuel discounts;

The Buzz is an online insurance business in Australia

Rate hardening, particularly in home, in face of increased reinsurance costs

5. AUSTRALIA DIRECT

- Insurers' above-the-line advertising spend remaining high; and
- Increased industry emphasis on e-commerce.

The industry as a whole is also contending with significant reinsurance cost increases in the wake of severe regional natural peril activity. These are resulting in industry-wide increases in premium rates, particularly in home and contents classes.

While the catastrophes of the past year have provided a stark reminder of the critical economic role insurance plays in the resilience of communities, they have also brought debate about how to better respond to them. Several related reviews are underway, including:

- The Federal parliamentary inquiry into the operation of the insurance industry during disaster events;
- The Queensland Floods Commission of Inquiry;
- The Federal government's Natural Disaster Insurance Review; and
- The Federal government's consultation paper, *Reforming flood insurance*.

Australia Direct supports a common definition of flood.

There are a number of other regulatory changes and reviews also underway, which may impact the general insurance industry. These include:

- The Insurance Contracts Act Amendment Bill and the possible inclusion of insurance in Australian Consumer Law for the purposes of Unfair Contract Terms;
- NSW legislation to prohibit the re-registration of all repairable written-off vehicles in an attempt to reduce car re-birthing. The reforms commenced on 31 January 2011, with full compliance required by 31 July 2011;
- Replacement of the insurance-based Victorian Fire Services Levy in favour of a new property-based levy by 1 July 2013, with a preceding year-long transition period for insurers from 1 July 2012; and
- Potential changes to the CTP scheme in the ACT.

FY12 OUTLOOK

In FY12, Australia Direct expects to report strong GWP growth, sourced from all products and States, with the continued exception of Queensland CTP. This will be underpinned by volume growth, ongoing product initiatives and rate increases necessitated by the higher cost of reinsurance and increased average claim costs following the recent sequence of severe natural peril events.

Anticipated rate increases will be skewed towards the home portfolio, which has borne the brunt of natural peril-related claim costs. Further rate increases in NSW CTP are also expected in 2012.

Australia Direct expects to generate a strong, but lower, insurance margin in FY12, with retention levels expected to remain high. While significantly higher reinsurance costs are expected to be recovered over the longer term, some pressure on margin may occur in FY12 given the time required to execute sufficient premium increases. Anticipated lower reserve releases will also be a factor.

The business will maintain its focus on improving underwriting quality around risk selection, as well as cost control, and is well positioned to respond to any competitive challenges.

Australia Direct will extend the availability of flood cover in calendar 2012, as more mapping data becomes available.

**Strong, but lower, margin
expected in FY12**

6. AUSTRALIA INTERMEDIATED (CGU)

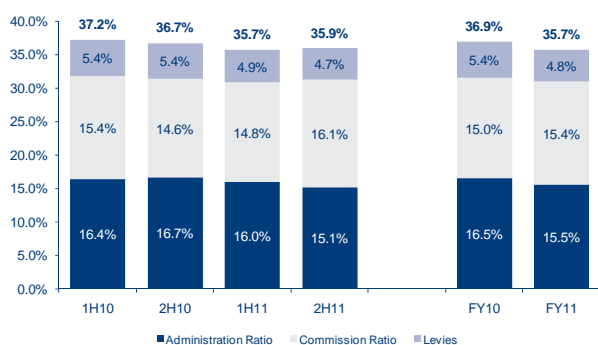
FINANCIAL PERFORMANCE

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Gross written premium	1,117	1,147	1,177	1,286	2,264	2,463
Gross earned premium	1,182	1,117	1,170	1,170	2,299	2,340
Reinsurance expense	(84)	(93)	(94)	(108)	(177)	(202)
Net earned premium	1,098	1,024	1,076	1,062	2,122	2,138
Net claims expense	(657)	(759)	(591)	(824)	(1,416)	(1,415)
Commission expense	(169)	(150)	(159)	(171)	(319)	(330)
Underwriting expense	(239)	(226)	(225)	(210)	(465)	(435)
Underwriting profit/(loss)	33	(111)	101	(143)	(78)	(42)
Investment income on technical reserves	79	138	53	129	217	182
Insurance profit/(loss)	112	27	154	(14)	139	140
Profit/(loss) from fee based business/share of associates	10	(1)	14	(10)	9	4
Total divisional result	122	26	168	(24)	148	144

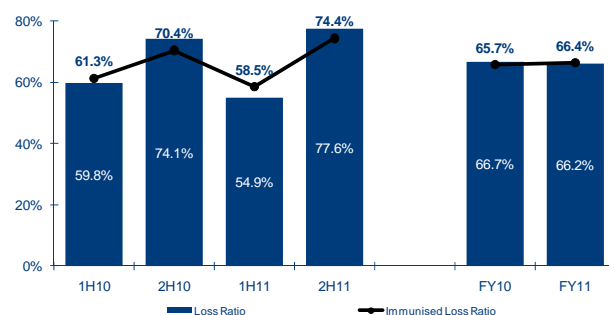
Insurance Ratios						
Loss ratio	59.8%	74.1%	54.9%	77.6%	66.7%	66.2%
Immunised loss ratio	61.3%	70.4%	58.5%	74.4%	65.7%	66.4%
Expense ratio	37.2%	36.7%	35.7%	35.9%	36.9%	35.7%
Commission ratio	15.4%	14.6%	14.8%	16.1%	15.0%	15.4%
Administration ratio	21.8%	22.1%	20.9%	19.8%	21.9%	20.3%
Combined ratio	97.0%	110.8%	90.6%	113.5%	103.6%	101.9%
Immunised combined ratio	98.5%	107.1%	94.2%	110.3%	102.6%	102.1%
Insurance margin	10.2%	2.6%	14.3%	(1.3%)	6.6%	6.5%

INSURANCE RATIOS

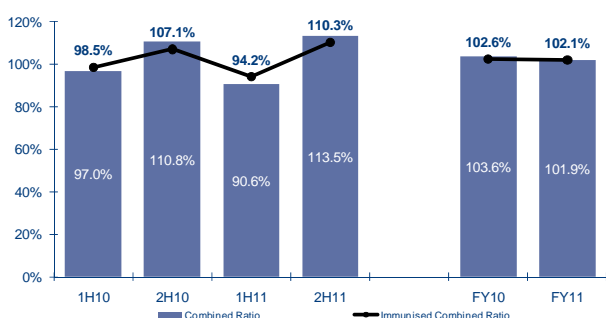
EXPENSE RATIO



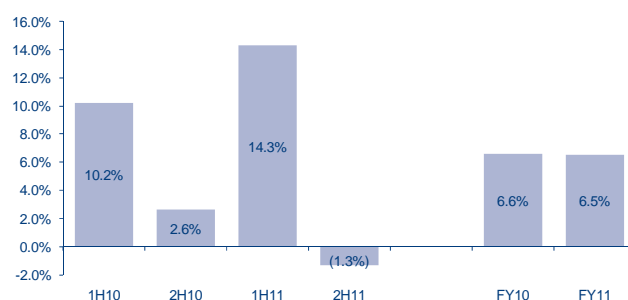
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



6. AUSTRALIA INTERMEDIATED (CGU)

EXECUTIVE SUMMARY

Australia Intermediated (CGU) represented over 30% of the Group's GWP in FY11, and comprises all products sold in Australia through brokers, authorised representatives, motor dealers and business partners.

While reported performance has been influenced by natural peril costs well in excess of allowances and partially offsetting reserve releases, CGU's underlying profitability has continued to improve. This reflects CGU's focus on profitable growth and continued investment in people, technology and processes.

Reported GWP increased by 8.8%, to \$2,463m, against a competitive market backdrop. This is the first improvement in reported GWP in several years, and was derived from a mixture of increased rate, new business and acquisitions.

CGU produced a total divisional result of \$144m in FY11 (FY10: \$148m), comprising an insurance profit of \$140m and \$4m from fee based business and share of associates. An insurance margin of 6.5% has been reported, compared to 6.6% in FY10.

CGU will continue to leverage the solid platform it has built and expects to make significant progress in FY12 towards achieving a double digit insurance margin.

While market conditions are expected to remain competitive, strong GWP growth is expected in FY12 through organic means and recent acquisitions, as well as rate increases to recoup increased reinsurance costs.

CGU has acquired HBF's general insurance business which, from 1 July 2011, is expected to generate over \$100m of annual GWP.

PREMIUMS

CGU has reported its first increase in full year GWP for several years, registering growth of 8.8% to \$2,463m. This follows an extended remediation period in which CGU has shed over \$250m of business where satisfactory returns could not be realised.

The increase in GWP largely reflects:

- Six months of premium (\$25m) from the recently acquired Accident and Health International (A&HI) business;
- Disciplined rate increases in short tail commercial classes and personal lines, although rate increases varied widely according to individual portfolios; and
- An increased contribution from Swann as a result of the rebound in car sales since 2009.

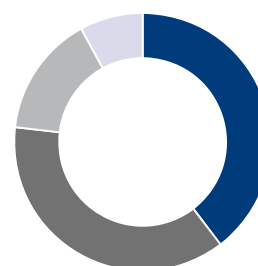
Overall rate increases have averaged around 5%, with the balance of growth derived from volume improvement, notably in the rural, farm, motorcycle and workers' compensation segments.

CGU's increasing focus on sales-led, relationship-driven account management has enabled it to maintain retention rates throughout this period of rate increases and strong competition.

Continued improvement in underlying performance

GWP growth restored

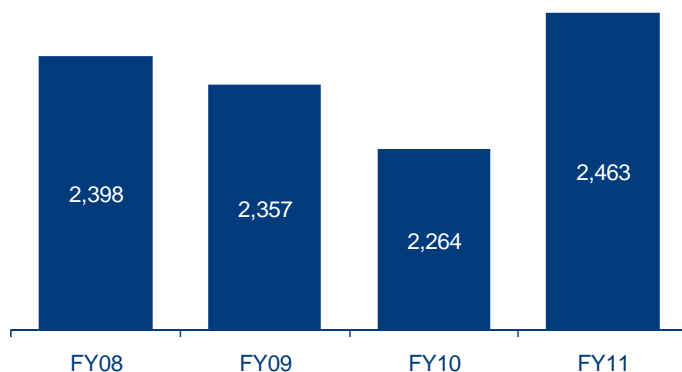
FY11 GWP BY CLASS



- Personal Lines
- SME
- Corporate
- Workers' Compensation

6. AUSTRALIA INTERMEDIATED (CGU)

GWP (A\$M)



REINSURANCE EXPENSE

CGU's reinsurance expense of \$202m is over 14% higher than that recorded in FY10 (\$177m). 60% of the increase was incurred in 2H11.

The increased full year expense reflects the combined effect of:

- Increased catastrophe cover costs stemming from the 1 January 2011 renewal;
- Approximately \$10m of incremental reinsurance expense cost associated with reinstatements and accelerated amortisation of utilised lower layer covers;
- An increased use of facultative reinsurance to support the growth of the corporate business, in particular the property portfolio; and
- Overall business growth.

A further increase in reinsurance expense is anticipated in FY12, as the balance of reinstatement costs (for the period to 31 December 2011) is expensed and an expected further increase in catastrophe cover costs is incurred upon renewal at 1 January 2012.

CLAIMS

CGU's reported loss ratio of 66.2% in FY11 is slightly lower than the 66.7% recorded in FY10. Significant movements within the claims expense of \$1,415m, compared to FY10 (\$1,416m), are higher reserve releases and increased natural peril costs.

On an immunised basis, the ratio has deteriorated slightly, from 65.7% in FY10 to 66.4% in FY11. Interest rates have been relatively stable compared to FY10.

The 2H11 loss ratio of 77.6% was significantly higher than that of 1H11 (54.9%), primarily owing to a substantial increase in net natural peril claim costs in the second half of the year.

Despite higher business volumes, CGU's 'other claims expense' has improved slightly, year-on-year, reflecting the combination of:

- Relatively flat underlying claim frequency;
- A modest increase in average claim costs, partially reflecting post-event inflation following the major hailstorms in Melbourne and Perth in 2H10;

Increased reinsurance expense owing to higher catastrophe rates and one-off costs

High 2H11 loss ratio reflects increased natural peril activity

6. AUSTRALIA INTERMEDIATED (CGU)

and

- Ongoing benefits from better risk selection and improved claims practices and processes.

NET CLAIMS EXPENSE - FY11 VS. FY10 (A\$M)



RESERVE RELEASES

Prior period reserve releases of \$178m were higher than those reported in FY10 (\$129m), and exceeded the expectations held at the beginning of the year. This reflected continued favourable claims experience in the workers' compensation and professional risks portfolios.

While still accounting for a greater than 800bps impact on the reported insurance margin in FY11, the contribution from reserve releases is expected to reduce over the longer term.

Higher than expected reserve releases sourced from long tail classes

RESERVE RELEASES

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Reserve releases	46	83	65	113	129	178
Impact on insurance margin	4.2%	8.1%	6.0%	10.6%	6.1%	8.3%

NATURAL PERILS

Losses from natural perils in FY11 (net of reinsurance) totalled \$316m, \$141m higher than related allowances for the year and \$80m higher than net losses incurred in FY10.

CGU incurred claim costs from a sequence of major peril events across the year. These included:

- Severe weather in South East Australia (September 2010);

Significant natural peril impact owing to 2H11 events

6. AUSTRALIA INTERMEDIATED (CGU)

- Severe thunderstorms in Australia (October 2010);
- Severe storms and wind in South and East Australia (November & December 2010);
- Severe storms in Brisbane and South East Australia (December 2010);
- Tropical Cyclone Tasha (December 2010);
- Heavy rains and storms in Brisbane and Toowoomba (January 2011);
- Severe storms in Victoria (January 2011);
- Tropical Cyclone Bianca (January 2011);
- Tropical Cyclone Yasi (February 2011); and
- Storms and severe weather in Victoria (February 2011).

The impact of these events was materially reduced by recoveries under the Group's aggregate reinsurance cover, notably in 1H11. CGU bore a greater exposure to events in 2H11 than Australia Direct, reflecting its larger market shares in Queensland and regional Australia.

Net natural peril costs in 2H11 were \$228m higher than those incurred in 1H11. Much of this higher second half cost is attributable to Tropical Cyclone Yasi and the Brisbane and Toowoomba storm events.

Net natural peril claim costs were also high in the corresponding half of FY10, which contained the substantial hailstorm events in Melbourne and Perth in March 2010.

NATURAL PERIL COSTS

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Natural perils	(60)	(176)	(44)	(272)	(236)	(316)
Natural perils allowance	64	83	72	103	147	175
Impact on insurance profit	4	(93)	28	(169)	(89)	(141)
Impact on insurance margin	0.4%	(9.1%)	2.6%	(15.9%)	(4.2%)	(6.6%)

EXPENSES

Reported expenses, comprising commission and underwriting costs, have decreased from \$784m in FY10 to \$765m in FY11. This translates to an improved expense ratio of 35.7%, compared to 36.9% in FY10, and 30.9% excluding levies (FY10: 31.5%).

CGU has continued to focus on tight cost management. This includes ongoing initiatives to drive both top-down and bottom-up business process improvements, as operating model changes result in more back office services being centralised and improved procurement activities.

Some of the savings realised have been reinvested into a range of technology, people and process initiatives, which will lead to further productivity and efficiency gains.

The commission ratio increased from 15.0% in FY10 to 15.4% in FY11. This reflects greater input from higher commission businesses such as Swann, as well as expense relating to the newly-acquired A&HI from 2H11. The commission ratio in the second half was 16.1%.

Tight cost control has produced improved expense ratio

6. AUSTRALIA INTERMEDIATED (CGU)

INSURANCE PROFIT

CGU has reported an insurance profit of \$140m, marginally higher than the \$139m recorded in FY10. This equates to an insurance margin of 6.5% (FY10: 6.6%). The result benefited from a \$49m increase in reserve releases, but was adversely affected by net natural peril claim costs which were \$80m higher than FY10.

CGU experienced contrasting halves, reporting:

- A 14.3% margin in 1H11, assisted by higher reserve releases of \$65m and net natural peril claim costs \$28m below related allowances; and
- A negative 1.3% margin in 2H11, where net natural peril costs exceeded related allowances by nearly \$170m, and were only partially offset by relatively high reserve releases of \$113m.

In line with the Group experience, negligible impact from credit spreads was recorded during the year, compared to a positive effect of \$13m in FY10.

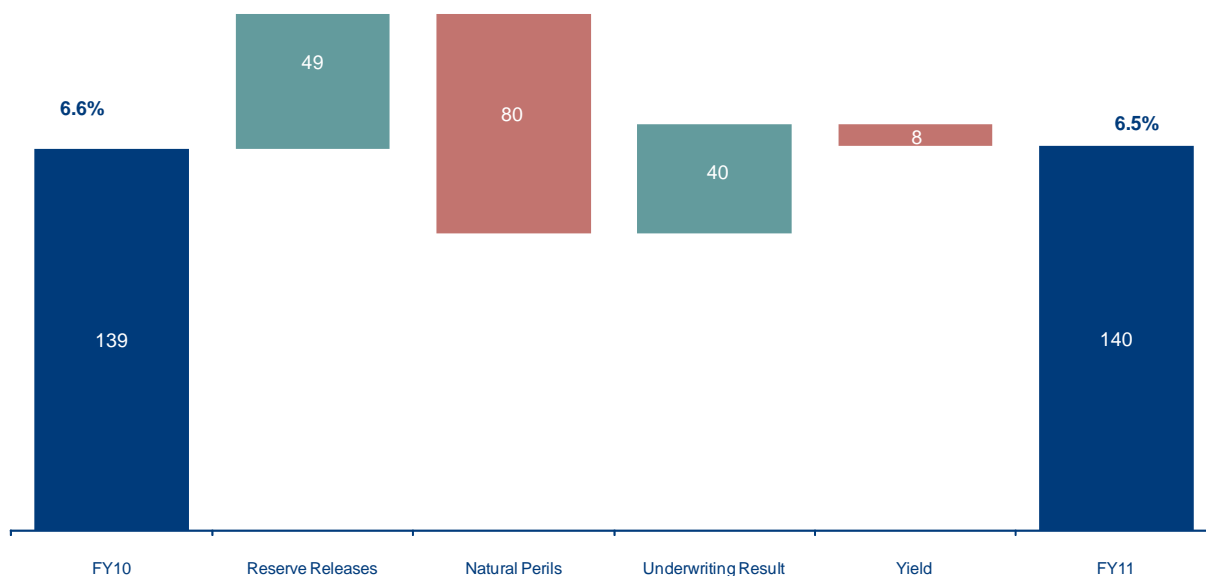
The underlying full year result builds on the improvement in performance that has been evident since FY08. This has been derived from:

- Improved underwriting and risk selection;
- Refined claims management processes;
- Increasingly tight management of operating costs and investment in technology to support increasing efficiency;
- Increased brand awareness through national consumer advertising campaigns and sponsorship of Collingwood Football Club; and
- Enhanced capabilities, driven through CGU's people strategy.

After allowing for reserve releases, natural perils, credit spreads and incremental reinsurance costs, CGU has improved its underlying performance by over \$150m since FY08.

Contrasting halves, owing to perils experience

INSURANCE PROFIT – FY11 VS. FY10 (A\$M)



6. AUSTRALIA INTERMEDIATED (CGU)

FEE BASED INCOME/SHARE OF ASSOCIATES

CGU generates fee income by acting as an agent under both the NSW and Victorian workers' compensation schemes, which are underwritten by the respective State governments.

In FY11, net income from fee based operations and share of associates totalled \$4m, compared to \$9m in FY10.

While the standard fees covering expenses are reasonably predictable, the total reported result continues to be volatile due to performance fees and prior year experience adjustments paid or charged by the State bodies. The FY11 result contained \$10m of prior period fee income compared to \$3m in FY10. These fees tend to be received in the opening half of CGU's financial year.

Excluding performance fees and prior year adjustments, like-for-like net income was significantly below FY10. This largely reflected:

- A \$5m remuneration and performance fee reduction imposed by WorkSafe Victoria. This related to business process issues which CGU identified and made WorkSafe aware of, and for which appropriate remedial action has been taken;
- The loss of 5% market share in NSW workers' compensation at the beginning of calendar 2010, as a result of the reallocation of some policies at the smaller end of the market; and
- Increased expenditure on technology and process projects.

MARKET ENVIRONMENT, REGULATION AND REFORM

Current economic conditions suggest Australia is operating under a two-speed economy, with the mining sector doing well and the rest of the country faring less favourably. In such circumstances, demand for commercial insurance products is expected to remain relatively flat. Recent severe weather events, however, have raised consumer awareness about the need for insurance, particularly home and contents.

Intermediated market conditions remain competitive with ample capacity still evident in the market. This translates to a still patchy pricing environment, despite an increasingly pressing need to raise rates to reflect higher natural peril claims and the related upturn in reinsurance costs.

Such cost pressures are expected to drive some consolidation in the market over the short to medium term.

Rates in home, and to a lesser extent contents, have continued to rise, directly reflecting increased catastrophe claim costs. The severe weather in early calendar 2011 is expected to place further upwards pressure on the cost of labour and materials for rebuilding.

In motor, industry rate increases continue to be achieved but are starting to slow, driven by underlying profitability and emerging competition.

Rates in the SME market remain generally flat, driven by surplus capacity, lower asset values and increasing competition. In corporate, rates are demonstrating considerable variation by class, with increases being achieved on accounts which have made claims.

The workers' compensation market has seen a recent increase in new claims numbers. The key risk market of Western Australia recently announced a 3.3% rate increase, driven primarily by claim costs growing faster than wages (reversing an earlier trend), and the increased cost of lump sum settlements.

Reduced fee based income from workers' compensation schemes

Slow rate hardening in competitive commercial market

6. AUSTRALIA INTERMEDIATED (CGU)

Broker electronic placement platforms continue to build a presence in the intermediated space and present a range of potential opportunities. CGU will continue to evaluate each of these developments on its merits, with a focus on those that enable the business to differentiate its offer on service, claims and brand, rather than price.

While the catastrophes of the past year have provided a stark reminder of the critical economic role insurance plays in the resilience of communities, they have also brought debate about how to better respond to them. Several related reviews are underway, including:

- The Federal parliamentary inquiry into the operation of the insurance industry during disaster events;
- The Queensland Floods Commission of Inquiry;
- The Federal government's Natural Disaster Insurance Review; and
- The Federal government's consultation paper, *Reforming flood insurance*.

CGU supports a common definition of flood.

There are a number of other regulatory changes and reviews also underway, which may impact the general insurance industry. These include:

- The Insurance Contracts Act Amendment Bill and the possible inclusion of insurance in Australian Consumer Law for the purposes of Unfair Contract Terms; and
- Replacement of the insurance-based Victorian Fire Services Levy in favour of a new property-based levy by 1 July 2013, with a preceding year-long transition period for insurers from 1 July 2012.

FY12 OUTLOOK

CGU will continue to focus on improving its underlying performance by accelerating profitable growth, through both organic and acquisitive means, while concentrating on reducing its expense base.

Recent initiatives include a partnership with Telstra to provide mobile handset insurance to customers at the point of sale, as well as the acquisition of HBF's general insurance business in Western Australia, from 1 July 2011. HBF is expected to generate over \$100m of annual GWP. These, along with a full year's input from A&HI and rate increases to recover increased reinsurance costs, will contribute to strong anticipated GWP growth in FY12.

The intermediated outlook is positive, with recent events highlighting the importance of specialist advice. CGU is focused on developing an increasingly sales-led, relationship-driven account management approach for its intermediary partners and adding value through its customer insights capability.

CGU intends to offer flood insurance during calendar 2012.

CGU continues to work towards its goal of a double digit insurance margin and expects to make significant progress towards this in FY12.

Further improvement in underlying performance expected in FY12

7. NEW ZEALAND

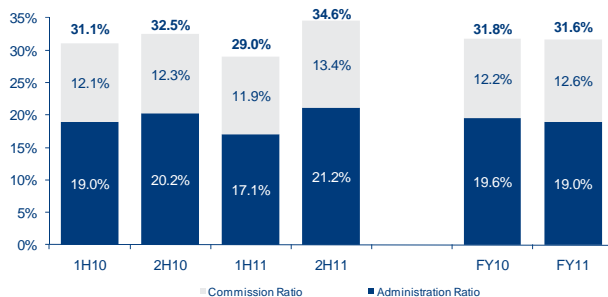
FINANCIAL PERFORMANCE

	1H10	2H10	1H11	2H11	FY10	FY11
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	472	489	472	484	961	956
Gross earned premium	491	477	484	463	968	947
Reinsurance expense	(38)	(37)	(29)	(90)	(75)	(119)
Net earned premium	453	440	455	373	893	828
Net claims expense	(249)	(245)	(237)	(341)	(494)	(578)
Commission expense	(55)	(54)	(54)	(50)	(109)	(104)
Underwriting expense	(86)	(89)	(78)	(79)	(175)	(157)
Underwriting profit/(loss)	63	52	86	(97)	115	(11)
Investment income on technical reserves	5	11	4	10	16	14
Insurance profit/(loss)	68	63	90	(87)	131	3
Profit from fee based business	1	-	-	1	1	1
Total divisional result	69	63	90	(86)	132	4

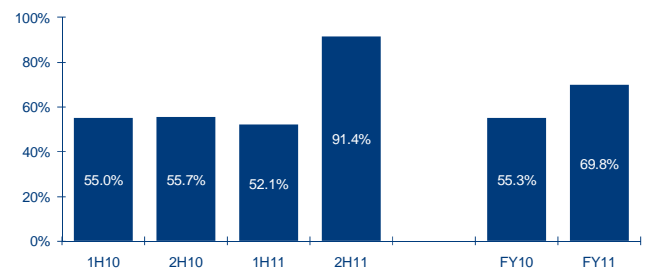
Insurance Ratios						
Loss ratio	55.0%	55.7%	52.1%	91.4%	55.3%	69.8%
Expense ratio	31.1%	32.5%	29.0%	34.6%	31.8%	31.6%
Commission ratio	12.1%	12.3%	11.9%	13.4%	12.2%	12.6%
Administration ratio	19.0%	20.2%	17.1%	21.2%	19.6%	19.0%
Combined ratio	86.1%	88.2%	81.1%	126.0%	87.1%	101.4%
Insurance margin	15.0%	14.3%	19.8%	(23.3%)	14.7%	0.4%

INSURANCE RATIOS

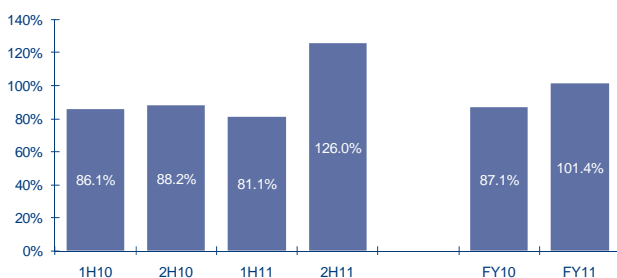
EXPENSE RATIO



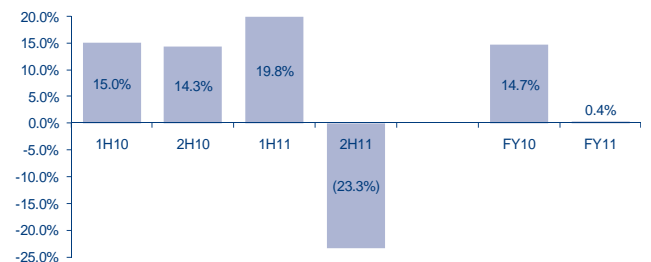
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



7. NEW ZEALAND

EXECUTIVE SUMMARY

IAG's New Zealand operations accounted for nearly 12% of the Group's GWP in FY11. Through the State, NZI and Business Partners affinity brands, IAG is the largest underwriter in New Zealand.

In FY11, the New Zealand general insurance market experienced its largest gross loss on record as a result of the Christchurch earthquakes, with major events occurring in September 2010, February 2011 and June 2011.

While IAG's result in the opening half of the year was fully insulated against any related cost owing to reinsurance recoveries, the full year reported insurance profit of \$3m (FY10: \$131m) reflected the following earthquake-influenced impacts:

- A \$105m increase in net natural peril claims expense; and
- \$50m of incremental reinsurance costs.

As a result, the business reported a much lower full year insurance margin of 0.4% (FY10: 14.7%), including a negative margin of 23.3% in 2H11.

After allowing for the earthquake impacts, the strong underlying performance evident in FY10 has continued throughout FY11, demonstrated by:

- GWP growth of 3.4% in local currency terms;
- Favourable working and large claims expense; and
- Further reductions in underwriting expense.

Market conditions are expected to harden in FY12 leading to strong GWP growth. This will be driven by rate increases, implemented to offset the rise in reinsurance costs and expected post-event claims inflation as the demand for labour and materials increases.

The New Zealand business expects to report a much-improved insurance margin in FY12, on the assumption that natural perils experience will return to more normal levels. Increased GWP will be offset by a commensurate increase in reinsurance and underlying claim costs.

PREMIUMS

New Zealand's FY11 GWP of \$956m was broadly flat in Australian dollar terms compared to FY10 (\$961m), but grew by 3.4% in local currency terms. Local currency GWP growth was slightly more subdued after allowing for the changed accounting treatment of a large customer portfolio in Business Partners (to a system that reports GWP on a monthly, rather than annual basis) which affected the comparable period.

The NZI intermediated business represents roughly half of New Zealand's GWP and grew by 3.7% in local currency terms. Growth was skewed to 2H11 as post-earthquake rate increases took effect. Retention levels improved throughout the year.

State Insurance, the largely direct personal lines business which represents over 30% of New Zealand's GWP, experienced a small decrease in GWP of 1.3% in FY11, in local currency terms. This reflects a reduction in item count following improved underwriting risk selection, partially offset by rate increases.

The Business Partners affinity channel grew GWP by 11.3% in local currency terms, however some of this reflected the aforementioned accounting treatment change. Excluding this impact, GWP growth was driven by price increases and a rise in retention levels.

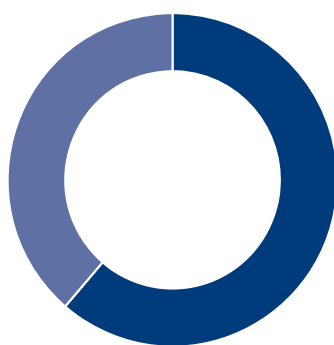
Reported result impacted by earthquake events, but underlying performance remains strong

Local currency GWP growth of 3.4%

7. NEW ZEALAND

Overall local currency GWP growth in 2H11 was 3.7% compared to 2H10. Within this, significant price increases were achieved in commercial portfolios as a result of the rise in reinsurance costs, while GWP declined in the travel and consumer credit and warranty channels owing to the exiting of some unprofitable accounts. The balance of the portfolio delivered GWP increases in line with inflation.

FY11 GWP BY CLASS



■ Personal
■ Commercial

FY11 GWP BY CHANNEL



■ Intermediated
■ Direct
■ Affinity

REINSURANCE EXPENSE

Reinsurance expense of \$119m is nearly 60% higher than FY10 (\$75m). The increase was incurred in 2H11 and reflects the combined effect of:

- Increased catastrophe cover costs stemming from the 1 January 2011 renewal; and
- Approximately \$50m of incremental reinsurance expense associated with reinstatements and accelerated amortisation of utilised lower layer covers.

A further increase in reinsurance expense is anticipated in FY12, as the balance of reinstatement costs (for the period to 31 December 2011) is expensed and an expected further increase in catastrophe cover costs is incurred upon renewal at 1 January 2012.

Material increase in reinsurance costs reflecting earthquake effects

CLAIMS

The net claims expense increased by \$84m to \$578m in FY11 driven by a significant increase in the incidence of natural perils. While dominated by the earthquakes in Christchurch, FY11 natural peril activity also included six separate storms and a tornado in Auckland, contrasting sharply with the benign peril environment experienced in FY10.

The individual earthquakes had differing effects on reported earnings owing to varying reinsurance recoveries available. While the September 2010 event had nil effect on reported earnings, owing to full recovery against reinsurance, the combined net claim cost impact of the February and June 2011 earthquakes was \$83m.

Large increase in net claims expense driven by natural peril activity

7. NEW ZEALAND

In addition to reinsurance, the Group's gross exposure to earthquakes is also limited by the cover provided by the New Zealand Earthquake Commission (EQC). This statutory body provides the first layer of household cover in the event of earthquake, capped at NZ\$100,000 plus GST per dwelling and NZ\$20,000 plus GST for contents. The EQC also pays the value of damaged land immediately surrounding a dwelling, or the repair cost, whichever is lower. The EQC's cover does not extend to commercial property or other risks.

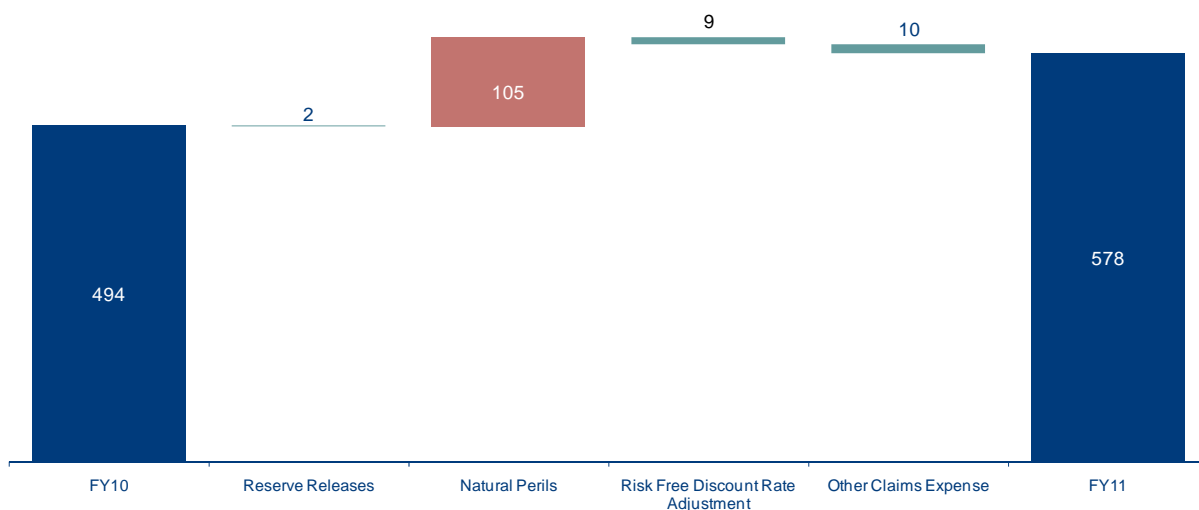
The FY11 loss ratio of 69.8% represents a significant deterioration on the 55.3% reported in FY10, and reflects both:

- The increase in natural peril claim costs; and
- The reduction in net earned premium flowing from increased reinsurance costs.

The strong underlying claims performance experienced in FY10 continued into FY11. This has been driven by the increased excesses introduced in 2010, as well as continued enhancement of underwriting quality and improved risk selection.

Working claims expense was favourable to FY10, with a decrease in frequency partly offset by an increase in average cost. Large claims performance also improved compared to FY10 driven by a lower incidence of large losses (>NZ\$100,000).

NET CLAIMS EXPENSE - FY11 VS. FY10 (A\$M)



7. NEW ZEALAND

EXPENSES

Total reported expenses in FY11, of \$261m, have reduced by nearly 8% compared to FY10. In local currency terms the reduction is 5%. The expense ratio, however, has reduced only slightly to 31.6% (FY10: 31.8%) owing to the countervailing reduction in net earned premium stemming from increased reinsurance costs.

Commission expense has decreased by 4.6% to \$104m, and by 1.5% in local currency terms.

Underwriting expenses of \$157m were 10.3%, or \$18m, lower than FY10. In local currency terms the reduction was approximately 7%. Contributory factors to this improvement were:

- The absence of one-off costs incurred in FY10 in respect of the GST rate change; and
- Lower IT expenditure, including a significant reduction in project-related amortisation.

The administration ratio of 19.0% is an improvement on the 19.6% reported in FY10, as strict cost control continues to be exercised.

INSURANCE PROFIT

The New Zealand business' insurance profit has been significantly affected by the increase in claim costs and reinsurance expense flowing from the Christchurch earthquakes. This has resulted in a lower reported insurance margin of 0.4%, compared to 14.7% in FY10.

FY11 did, however, embrace contrasting halves:

- The 1H11 margin of 19.8% incorporated no cost from the first Christchurch earthquake in September 2010, owing to reinsurance protection; whereas
- The negative 23.3% margin in 2H11 bore a combined cost of \$83m from the subsequent earthquakes in February and June 2011, as well as materially higher reinsurance costs.

Excluding the impact of the Christchurch earthquakes, including associated reinsurance costs, the underlying performance has been strong. The key drivers of this performance were:

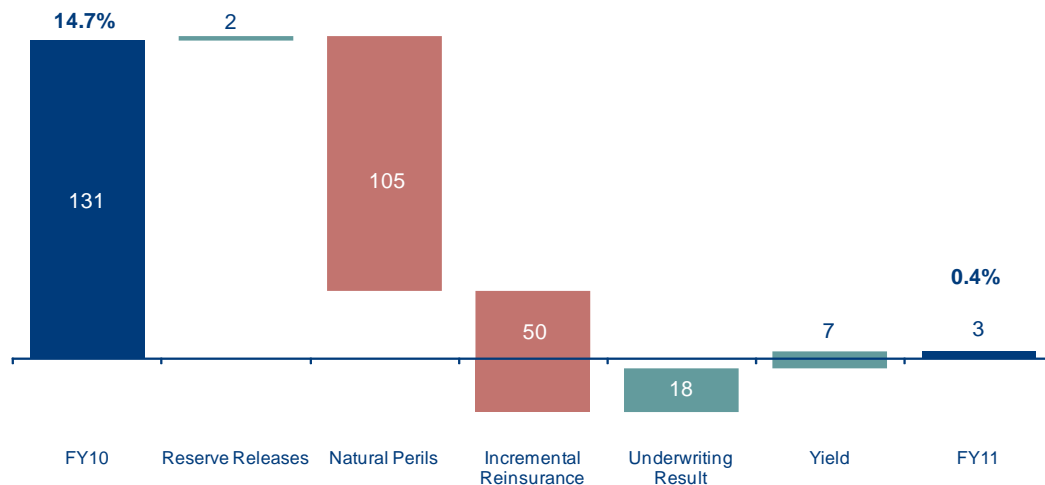
- A continuation of the favourable working and large claims experience as a result of improved underwriting and claims disciplines; and
- Lower administration expenditure.

Sound cost control in evidence

Strong underlying profitability maintained, after allowance for earthquake costs

7. NEW ZEALAND

INSURANCE PROFIT – FY11 VS. FY10 (A\$M)



MARKET ENVIRONMENT, REGULATION AND REFORM

The New Zealand economy is continuing its slow recovery after emerging from a 15 month-long recession in the last quarter of FY10.

The Christchurch earthquakes have had a significant impact on the New Zealand general insurance market and the local economy. The combined cost of the earthquakes in September 2010 and February 2011 is estimated at around NZ\$15bn, which has had a material effect on the profitability of the general insurance market. Some smaller participants have failed, and one larger entity has sought government support.

The cost of the earthquakes is apparent in several key areas:

- Slowing the growth of the New Zealand economy as productivity in Christchurch is lost and government resources are directed to the region's recovery;
- Increased expenses and reinsurance costs associated with managing and paying related claims; and
- Expected post-event claims inflation, driven by shortage of labour and materials.

The New Zealand Treasury has estimated that the earthquakes will have an adverse effect on GDP of up to 1.5% in the 2011 calendar year. The economic growth in real terms for 2012 is forecast to increase by 1.8%, climbing to 4.0% as the rebuild of Christchurch gathers momentum.

In June 2011 the New Zealand government provided increased certainty for those affected by the earthquakes, by announcing that all greater Christchurch land had been divided into four residential zones – red, orange, green and white.

The red zone comprises land which is considered unlikely to be able to be rebuilt on for a considerable period of time, and currently includes around 6,000 residential properties in the Canterbury region of New Zealand. Insured homeowners in this zone have been offered two options, which they have nine months to consider:

- The government purchases the entire property at current rating value and assumes all the insurance claims; or

Hardening market, driven by increased reinsurance costs

7. NEW ZEALAND

- The government purchases the land only, and homeowners continue to deal with their own insurer.

Industry-wide increases in premium rates are now evident, with post-September 2010 increases in the commercial market now extending to personal lines categories. A driving force is the substantial increase in reinsurance costs that the industry is having to bear.

The government has introduced the Insurance (Prudential Supervision) Act 2010. This Act establishes a licensing regime directing insurers to operate in a prudent and solvent manner including maintaining minimum solvency standards. The new regulatory regime is similar to that already in place in Australia and is expected to have limited impact on IAG's New Zealand business, as existing governance frameworks are broadly compliant.

The New Zealand government released a discussion document on 1 June 2011 for introducing choice in the Accident Compensation Corporation (ACC) Work Account and extending the Accredited Employers Programme. Related annual premium currently exceeds NZ\$740m. The document proposes to give employers the choice of buying work-related personal injury insurance from ACC or from a private insurer. IAG has provided a submission and will continue to monitor the progress of these reforms. If the scheme design facilitates true competition, IAG will consider entering this business.

FY12 OUTLOOK

In FY12 market conditions are expected to harden further following the Christchurch earthquakes. Strong GWP growth is expected in FY12 as rate increases are implemented to offset the rise in reinsurance costs and to appropriately price for risk.

Significant rate increases are already in place for the material damage and business interruption portfolios within commercial, as well as home owners and home contents portfolios.

The earthquakes are expected to place pressure on claim costs as demand for labour and materials increases, leading to post-event claims inflation.

A dedicated business unit has been established to manage IAG's response to the earthquakes. IAG has also partnered with a local construction company for the repair of residential and small commercial properties to ensure superior service to customers, effective cost control and to reduce the impact of the earthquakes on business as usual operations.

The FY12 insurance margin is expected to improve, due to the following:

- Earned premium growth driven by rate increases and item growth;
- A return to more normal net natural peril claims experience; and
- A continuation of favourable working and large claims frequency, partially offset by the expected rise in the average cost of claims.

Higher reinsurance costs are also expected to be a feature of the FY12 result.

Improved margin expected in FY12, as natural perils revert to more normal levels

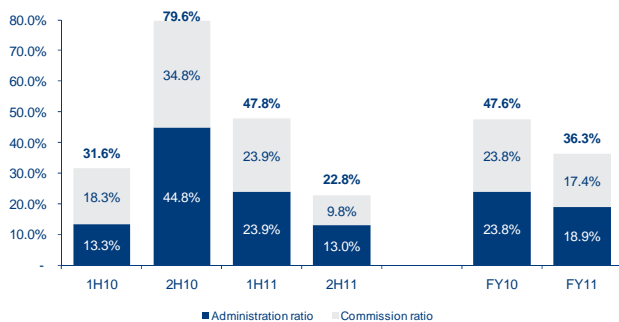
8. UNITED KINGDOM (UK)

FINANCIAL PERFORMANCE

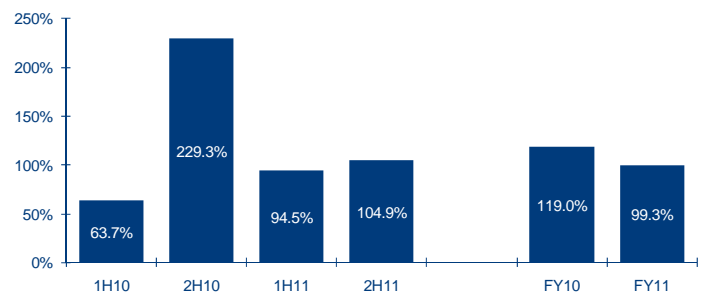
	1H10	2H10	1H11	2H11	FY10	FY11
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Gross written premium	406	306	271	275	712	546
Gross earned premium	379	284	309	293	663	602
Reinsurance expense	(18)	(103)	(16)	(47)	(121)	(63)
Net earned premium	361	181	293	246	542	539
Net claims expense	(230)	(415)	(277)	(258)	(645)	(535)
Commission expense	(66)	(63)	(70)	(24)	(129)	(94)
Underwriting expense	(48)	(81)	(70)	(32)	(129)	(102)
Underwriting profit/(loss)	17	(378)	(124)	(68)	(361)	(192)
Investment income on technical reserves	7	(1)	3	8	6	11
Insurance profit/(loss)	24	(379)	(121)	(60)	(355)	(181)
Profit/(loss) from fee based business/share from associates	(2)	(1)	2	-	(3)	2
Total divisional result	22	(380)	(119)	(60)	(358)	(179)
Insurance Ratios						
Loss ratio	63.7%	229.3%	94.5%	104.9%	119.0%	99.3%
Expense ratio	31.6%	79.6%	47.8%	22.8%	47.6%	36.3%
Commission ratio	18.3%	34.8%	23.9%	9.8%	23.8%	17.4%
Administration ratio	13.3%	44.8%	23.9%	13.0%	23.8%	18.9%
Combined ratio	95.3%	308.9%	142.3%	127.7%	166.6%	135.6%
Insurance margin	6.6%	(209.4%)	(41.3%)	(24.4%)	(65.5%)	(33.6%)

INSURANCE RATIOS

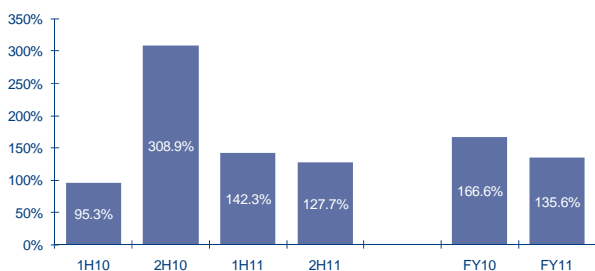
EXPENSE RATIO



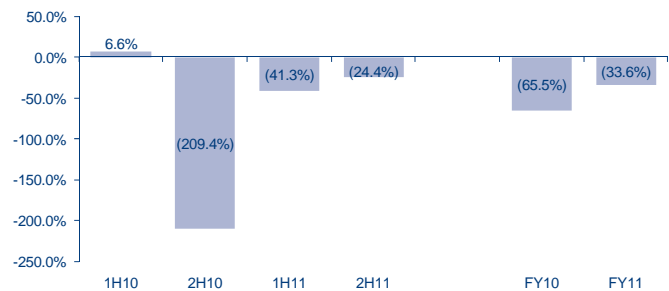
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



8. UNITED KINGDOM (UK)

EXECUTIVE SUMMARY

IAG's business in the United Kingdom (UK) accounted for approximately 7% of the Group's GWP in FY11, down from 9% in FY10. The main components of the business are:

- Equity Red Star (ERS), the largest motor syndicate at Lloyd's;
- The Equity Direct Broking Limited (EDBL) affinity business, which works with a number of major financial brands and large motor manufacturers; and
- Specialist commercial brokers, Barnett & Barnett and NBJ (acquired in 1H11).

The UK business performed poorly in FY11, however, positive progress with the extensive programme of remedial actions resulted in a lower second half loss of \$60m. This is in line with the expectations outlined in February 2011.

While an improvement against FY10, the FY11 result reflects:

- The ongoing market issue of bodily injury claim inflation, at a level more severe than that anticipated at the beginning of the financial year;
- The time taken to re-establish a number of key broker relationships on a financially mutual basis;
- Rate increases taking longer to realise than initially anticipated, but starting to be reported across all classes;
- The impact of the extremely harsh winter weather, resulting in an increase in net natural peril claim costs of \$11m; and
- Inclusion of a \$36m cost (in 2H11) for the adverse development cover (ADC) taken out in respect of the motor account for the calendar 2010 underwriting year.

The previous ADC, for the underwriting years up to 31 December 2009, provided considerable protection for the motor book during 1H11. There was no further development in 2H11.

The remedial actions programme was accelerated in 2H11 to include further portfolio-wide rate increases, increased claim cost savings and the exit of additional areas of unprofitable business. The local management team has also been strengthened through key appointments.

A further operating loss is anticipated in 1H12, with the business moving towards breakeven in FY12.

REMEDIATION PROGRAMME

A comprehensive remediation programme commenced at the end of FY10 to return the UK business to an acceptable level of profitability. Progress to date has been considerable, and has encompassed:

- A significant strengthening of management resources, with a number of key senior appointments becoming in situ during 2H11;
- Substantial rate increases, applicable to most key business classes;
- An exit from the vast majority of third party aggregator-sourced volumes (with the previously indicated exception of motorcycle), resulting in private car and van business no longer being written with the four largest volume brokers;
- The shedding of unprofitable broker relationships, while others undergo specific underwriting action;

Reduced 2H11 loss, as remediation actions begin to assist underlying performance

Remediation programme has made considerable progress

8. UNITED KINGDOM (UK)

- A complete underwriting health-check, comprising a detailed review of all classes of business and the implementation of a wide range of underwriting and operational improvements, including restructuring of classes;
- The development of a longer term pricing strategy;
- Enhanced management information systems to improve granularity of portfolio analysis and performance;
- Rigorous review and transformation of claim settlement and reserving practices, including more detailed and transparent procedures for bodily injury claim estimation;
- Implementation of more sophisticated claims systems, resulting in improved cost control;
- Enhanced claims data, allowing the creation of better accident period information and improved reporting on claims development; and
- Commenced implementation of a number of counter-fraud solutions as part of enhanced fraud management initiatives.

IAG continues to work closely with its UK regulators, the Financial Services Authority (FSA) and Lloyd's, to keep them informed of progress with the remediation programme.

PREMIUMS

Reported GWP for FY11 decreased by over 23% to \$546m (FY10: \$712m). In local currency terms, the decline was a more modest 14%, to £339m, reflecting the impact of the strong Australian dollar on reported performance. The reduction in full year GWP is a function of:

- Lower volumes stemming from remedial actions, including the deliberate exit from aggregator-originated sources and the cancellation of certain broker relationships; and
- Significant offsetting rate increases, applied across most key portfolios.

In contrast, 2H11 GWP increased by 1.5% compared to 1H11. The equivalent local currency movement was an increase of over 5%. This recovery is explained by a mixture of increased rates, strong retention and new business, notably in the private car direct, motorcycle and fleet classes.

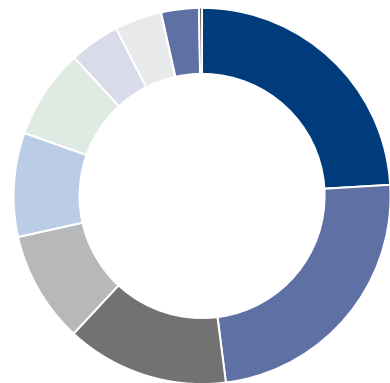
The classification of GWP by segment has been revised to more appropriately reflect the structure of the business. The former 'special risks' portfolio has been reclassified into:

- Commercial motor – including coaches, mini-buses and haulage vehicles;
- Private car and van bespoke – focusing on broker-sourced specialist business including classic vehicles, kit cars, imports and modified vehicles; and
- Private car and van broker – focusing on standard private car and light van business.

Underlying private car broker volumes have reduced by around 50%, year-on-year, as aggregator-related volumes have ceased. A comparable reduction in the household book has also occurred.

GWP driven by combined effect of rate increases and volume loss

FY11 GWP BY CLASS



- Fleet
- Private Car & Van Broker
- Private Car Direct (Affinity Motor)
- Household
- Commercial Motor
- Motorcycle
- Private Car & Van Bespoke
- Agricultural
- Breakdown
- Personal Accident

8. UNITED KINGDOM (UK)

REINSURANCE EXPENSE

The reported reinsurance expense of \$63m in FY11 is lower than FY10 (\$121m), owing to the combined effect of:

- Differing adverse development cover (ADC) costs identified in the respective years; and
- The effect on translation of a strong Australian dollar.

In FY10, the Group entered into an ADC which provided over \$200m of protection against further claims deterioration arising on the ERS motor account for the underwriting years ending 31 December 2009 and prior, at a cost of approximately \$67m which was fully expensed in 2H10. This cover has provided considerable protection to the FY11 result. Residual protection available at 30 June 2011 stands at approximately \$67m, and has improved from the position at 31 December 2010 (\$50m).

In FY11, the Group purchased a similar cover in respect of the underwriting year ended 31 December 2010, providing protection against \$100m of motor claims deterioration, commencing approximately \$25m above the reserved position. A related expense of \$36m was recognised in 2H11. This cover has not been utilised, at 30 June 2011.

CLAIMS

The UK business' reported loss ratio of 99.3% in FY11 represents a significant improvement over FY10 (119.0%), which included a \$275m reserve strengthening recognised in 2H10.

Whilst loss ratios in individual halves were influenced by the timing of ADC-related reinsurance costs and their effect on net earned premium, the year-on-year improvement embraces:

- A substantial reduction in prior period reserve strengthening, down to \$20m in FY11;
- A continued adverse impact from bodily injury claim inflation, which exceeded expectations held at the beginning of the year;
- The growing impact of rate increases enforced across the portfolio; and
- \$11m of natural peril costs associated with the extremely harsh winter weather experienced in the UK in the closing weeks of calendar 2010.

EXPENSES

Total expenses have decreased by \$62m, from \$258m in FY10 to \$196m in FY11. In local currency terms, a 14% reduction has occurred.

This translates to an improved expense ratio of 36.3% in FY11 (FY10: 47.6%). The FY11 outcome contains:

- Increased capability costs, following the strengthening of local management resources in key areas such as actuarial and pricing;
- One-off costs related to the remediation programme; and
- A reduction in costs associated with Syndicate 1208 (in run-off).

As at 30 June 2011 a LAT fail of \$18m was recognised. This follows equivalent amounts of \$16m and \$40m identified at 30 June 2010 and 31 December 2010 respectively. The reduced amortisation of DAC resulting from these prior period charges contributed to an overall negative P&L effect of approximately \$20m in FY11, including a positive impact of around \$10m in 2H11.

Reinsurance expense influenced by ADC costs

Significant protection from 2009 ADC

Flat underlying expense base

8. UNITED KINGDOM (UK)

The FY11 commission expense decreased to \$94m (FY10: \$129m), producing a full year commission ratio of 17.4% (FY10: 23.8%). Individual half-yearly ratios have been distorted by LAT impacts and the timing of reinsurance (ADC) cost recognition. On an underlying basis, the commission ratio improved during FY11, reflecting business mix changes and significant volume reductions in higher commission-attracting portfolios, such as household.

The underwriting expense decreased from \$129m in FY10 to \$102m in FY11. Again, individual halves have been distorted by LAT and ADC cost timing effects, however the reported administration expense ratio has shown a year-on-year improvement from 23.8% in FY10 to 18.9% in FY11. On an underlying basis, there was a small increase in underwriting expense, in local currency terms.

Management continues to examine ways to improve the efficiency of the business, given the reduction in business volumes incurred over the past 18 months. This process includes organisational restructures and the review of commission structures. No significant related restructuring costs are anticipated.

INSURANCE LOSS

While the UK business has produced an improved result in FY11, the reported loss of \$181m equates to a negative insurance margin of 33.6% (FY10: -65.5%). Bodily injury claim inflation and associated reinsurance costs were notable features of the reported full year outcome.

A significantly lower loss has been reported in 2H11, compared to 1H11, despite inclusion of \$36m of reinsurance costs associated with the ADC for the 2010 underwriting year. This outcome is in line with the expectations outlined in February 2011.

FEE BASED INCOME

Net fee based income, from EDBL, Barnett & Barnett, NBJ and managing agent fee income, amounted to a profit of \$2m in FY11, compared to a loss of \$2m in FY10. These businesses have continued to perform to expectations, with a strong performance in particular from EDBL, which is delivering high quality private car business through:

- The application of significant premium rate increases;
- Strong retention levels and business growth; and
- Partnerships with a panel of key financial service providers and motor manufacturers.

EDBL's affinity relationships include those with Santander, first direct, Honda, Renault, Nissan, Mazda and Kia.

EDBL has direct access to customers through the policy lifecycle. This allows the active validation of customer data and exertion of a significant amount of control over claims handling processes, thereby reducing exposure to claims farming by external parties. FY11 saw the launch of the use of e-documents for distributing policies to customers.

Barnett & Barnett and the recently acquired (October 2010) NBJ have been merged to form a new division called Independent Commercial Broking (ICB). ICB performed soundly in FY11 and produced a modest profit.

Reduced 2H11 loss in line with expectations

Fee based operations have performed to expectations

8. UNITED KINGDOM (UK)

MARKET ENVIRONMENT, REGULATION AND REFORM

The UK economy registered modest growth in 2H11. However, household and government spending remain weak. The Coalition government plans to cut spending by around £81bn over the next four years, with the loss of almost half a million public sector jobs. The impact of this is yet to be felt fully.

The Bank of England has kept interest rates at a record low of 0.5% to shore up the economic recovery, however inflationary pressures are building. The Consumer Prices Index (CPI) annual inflation stood at 4.4% in July 2011, and continues to exceed the Bank of England's 2% target. Consumers have been affected by increases in Value Added Tax (VAT), from 17.5% to 20%, and Insurance Premium Tax (IPT), from 5% to 6%, from 4 January 2011.

New car registrations are expected to decline by 5% in calendar 2011, according to the Society of Motor Manufacturers and Traders (SMMT), having fallen by over 7% in the opening six months of the year. While fleet demand and diesel vehicle sales remain relatively strong, private car volumes have continued to contract.

Trading conditions in the UK motor insurance market remain challenging. Analysis of insurers' Financial Services Authority (FSA) returns suggests a 2010 combined operating ratio (COR) for the market in the region of 119%, little changed from 2009.

Bodily injury claim inflation remains a key influence on industry profitability, with related claims now estimated to account for 50% of UK motor insurance claim costs, compared to 20% 20 years ago. This has been driven by the 'claim farming' activities of accident lawyers, credit hire organisations and claims management companies. The number of firms registered to offer personal injury claim services grew from 1,409 to 2,500 between 2008 and 2010. The Ministry of Justice did, however, shut down nearly 350 unscrupulous or unauthorised claims management companies in the year to 31 March 2011, a ten-fold increase over 2010.

Industry fraud also remains a serious concern. The Association of British Insurers (ABI) estimates that £930m of motor insurance fraud went undetected last year, whilst staged accidents involving several people, all of whom claim for minor injuries supposedly caused by the crash, now cost the industry £350m per year.

The majority of market participants have responded to these issues by implementing significant premium rate increases, with the AA's British Insurance Premium Index reporting a rise of over 30% in average comprehensive private motor premium over the year to 30 June 2011. However, the pace of growth has eased considerably, with the survey reporting a 3.6% increase over the three months to 30 June.

Higher rates are continuing to encourage consumers to use comparison services to shop for their car insurance. Aggregator-instigated private motor insurance sales are expected to account for 63% of new business by 2012, up from the present 55%.

There are also some positive industry trends. Reduced road traffic accidents and vehicle thefts are expected to continue to lower claim frequency, while rising fuel costs have reduced business and commuting mileage on the roads. The continuous enforcement insurance scheme implemented in mid-2011 is also expected to lower the level of uninsured driving (currently estimated at 4%) and associated industry costs.

Challenging economic backdrop and industry conditions persist, but emerging signs of reform intent

8. UNITED KINGDOM (UK)

The UK government has taken the first positive steps towards tort reform, having recently announced its support of the Jackson Report's recommendations around civil litigation reforms. An indicated timeframe for implementation is April 2012. The proposals stop short of abolishing referral fees, however, there is growing public outcry over this practice. The inability of younger drivers to obtain affordable insurance is also attracting scrutiny.

The government has announced a further consultation on extending the new Ministry of Justice claims process to other types of personal injury claims and to claims up to £25,000 in value (previously up to £5,000). This will help see a reduction in legal costs which, according to the ABI, currently represent 87p of every £1 insurers pay in compensation.

Two key areas of uncertainty exist in relation to future statutory reserving requirements, both of which may result in increased claim costs. These are the new edition of the Ogden life expectancy tables, due to be published by the end of 2011, and the Lord Chancellor's forthcoming review of the discount rate used in calculating lump sum awards which is expected to result in a downwards revision.

FY12 OUTLOOK

The UK's remediation programme is expected to improve performance towards breakeven in FY12, although a further loss is anticipated in 1H12. A relatively flat GWP outlook is predicted for FY12, as rate increases counter volume loss.

For the balance of calendar 2011, private car broker and household volumes, in particular, are expected to fall, with volumes stabilising thereafter.

Following the extensive efforts put into remediating the business in FY11, management is working to restore the UK business to profitability as soon as possible. Although the current recessionary conditions create a challenging environment, actions in FY12 will include:

- The realisation of significant additional portfolio-wide rate increases;
- The further cancellation of unprofitable business and the delivery of broker improvement plans;
- The continued development of key capabilities in vital areas such as fraud, management information systems, pricing and actuarial;
- Robust control over expenses to ensure a streamlined, sustainable business going forward; and
- Refocusing the business on traditional core strengths and leveraging expertise and newly enhanced capabilities.

Within fee based business, work continues in EDBL on widening the insurer panel and acquiring new affinity partners.

**Improved performance
expected in FY12, as the
business moves towards
breakeven**

9. ASIA

FINANCIAL PERFORMANCE

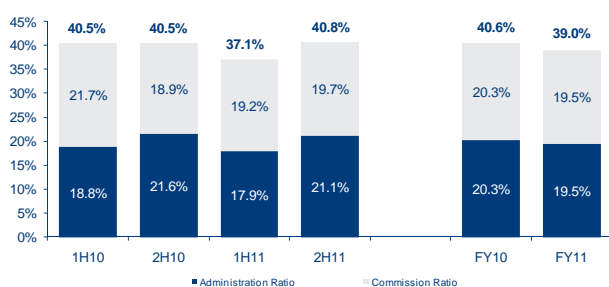
	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m	FY10 A\$m	FY11 A\$m
Gross written premium	89	96	97	92	185	189
Gross earned premium	86	90	95	89	176	184
Reinsurance expense	(17)	(16)	(17)	(18)	(33)	(35)
Net earned premium	69	74	78	71	143	149
Net claims expense	(40)	(48)	(52)	(44)	(88)	(96)
Commission expense	(15)	(14)	(15)	(14)	(29)	(29)
Underwriting expense	(13)	(16)	(14)	(15)	(29)	(29)
Underwriting profit/(loss)	1	(4)	(3)	(2)	(3)	(5)
Investment income on technical reserves	1	4	-	1	5	1
Insurance profit	2	-	(3)	(1)	2	(4)
Share of profit from associates	2	1	1	(4)	3	(3)
Total divisional result	4	1	(2)	(5)	5	(7)

Insurance Ratios¹						
Loss ratio	58.0%	64.9%	66.7%	62.0%	61.5%	64.4%
Expense ratio	40.5%	40.5%	37.1%	40.8%	40.6%	39.0%
Commission ratio	21.7%	18.9%	19.2%	19.7%	20.3%	19.5%
Administration ratio	18.8%	21.6%	17.9%	21.1%	20.3%	19.5%
Combined ratio	98.5%	105.4%	103.8%	102.8%	102.1%	103.4%
Insurance margin	2.9%	-	(3.8%)	(1.4%)	1.4%	(2.7%)

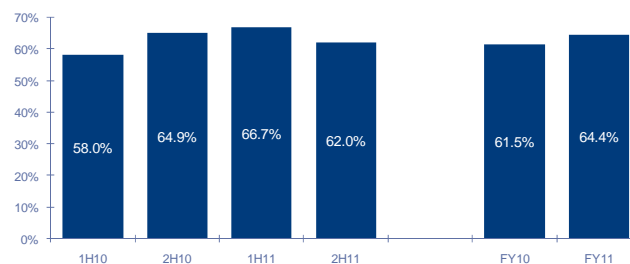
¹Insurance ratios include divisional expense overlays and are not a true representation of the underlying consolidated business (Thailand).

INSURANCE RATIOS

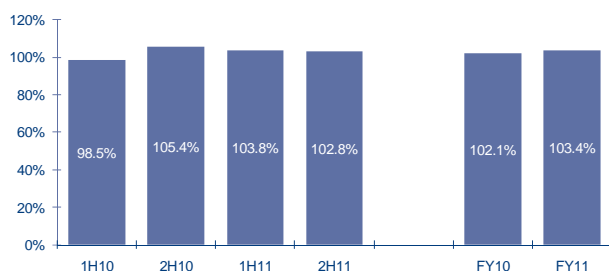
EXPENSE RATIO



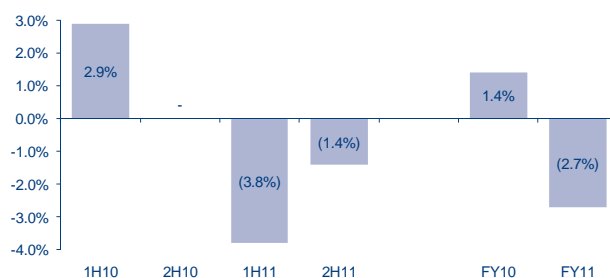
LOSS RATIO



COMBINED RATIO



INSURANCE MARGIN



9. ASIA

EXECUTIVE SUMMARY

Asia is an important source of longer term growth for IAG. One of the Group's recently stated strategic priorities is to boost its Asian footprint, so that it represents 10% of total GWP, when calculated in a proportional manner, by 2016.

Asian growth will be achieved through a combination of:

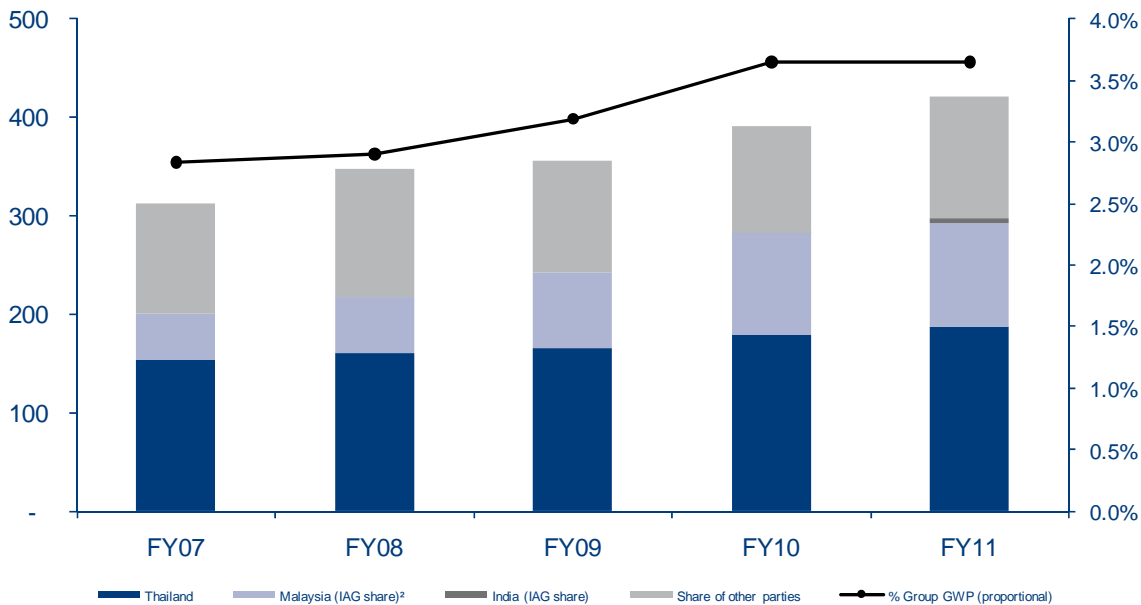
- Organic growth across all markets;
- Increased ownership in existing markets;
- Bolt-on acquisitions in established markets; and
- New market entry.

A highly disciplined approach to the examination of investment options is employed, with partner selection a key factor.

The Asia division currently participates in a regional GWP pool of in excess of \$420m. IAG's share of that pool in FY11 was nearly \$300m, or 3.7% of the Group's GWP on a proportional basis.

Asia expected to be 10% of Group GWP by 2016

IAG ASIA – GWP POOL (A\$M / % OF GROUP GWP)¹



¹All amounts have been converted to A\$ using the exchange rate at the most recent reporting date to aid comparability.

²IAG's interest in AmG (Malaysia) increased from 30% to 49% with effect from 1 December 2008.

Prior to regional support and development costs, the Asia division recorded a profit of \$13m in FY11, compared to a \$23m profit in FY10. This lower outcome reflects:

- Solid underlying performances from the established businesses in Thailand and Malaysia;
- Three flood events in Thailand, over the course of the financial year;
- Initial start-up losses from the Indian operation, in line with expectations; and

9. ASIA

- Lower investment income on technical reserves.

After regional support and development costs of \$20m (FY10: \$18m), the Asia division recorded a loss of \$7m in FY11 compared to a \$5m profit in FY10.

The Group continues to expand its footprint in this high growth region, with:

- The expanded launch of SBI General Insurance Company (SBI General), a 26%-owned joint venture with State Bank of India, occurring in 2H11;
- The announcement on 15 August 2011 that IAG has agreed to acquire a 20% strategic investment in Bohai Insurance Pty Ltd in China;
- Ongoing pursuit of growth options in existing markets; and
- Initial assessment of other select Asian markets and opportunities underway. The division has identified Indonesia and Vietnam as additional markets of interest.

As at 30 June 2011, IAG's combined investment in Asia stood at approximately \$390m.

THAILAND

OPERATIONS

IAG's controlled operations in Thailand comprise:

- Safety Insurance – a predominantly motor insurer; and
- NZI Thailand – a commercial insurer.

During FY11 the local regulator approved the merger of Safety Insurance (Safety) and NZI Thailand (NZI). Both Thai businesses will operate under a single licence (Safety Insurance), but retain the use of both brands. The process is being effected through the renewal of policies commencing from 1 July 2011 and will take approximately 18 months to complete.

OPERATING PERFORMANCE

Thai GWP in FY11 increased by 5.5% in local currency terms, compared to FY10. Reported FY11 GWP of \$189m represents an increase of approximately 2%, reflecting the relative strength of the Australian dollar.

Safety represented over 80% of the Thai business' GWP, and registered year-on-year local currency growth of 6.6%. Safety recorded strong growth early in the financial year, but this was then tempered by its decision to be very selective in its participation in the intense price competition witnessed in the motor market in 2H11. Over 87% of Safety's FY11 GWP was motor.

NZI reported modest GWP growth in local currency terms, of slightly above 1%. This reflected the tough conditions persisting in NZI's commercial market segments.

The combined Thai businesses continued to perform soundly, with a lower underlying insurance margin of 6.1% (FY10: 9.2%) specifically influenced by:

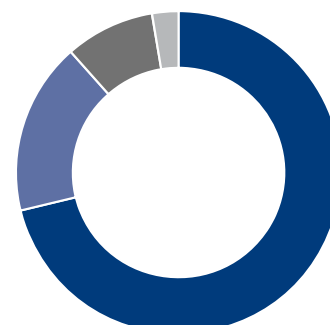
- The impact of three flood events (the central and eastern floods in October 2010, and two floods in the south in November 2010 and March 2011), which had a combined impact of \$4m on the reported insurance profit; and
- Lower investment income on technical reserves, which includes unrealised losses on interest-bearing investments.

Excluding these factors, the Thai result would have been higher than FY10.

Thai business is the sole consolidated operation in Asia

Solid performance from the Thai business

THAILAND – FY11 GWP BY CLASS



- Motor
- Other Short Tail
- Liability
- Short Tail Commercial

9. ASIA

The overall business' FY11 loss ratio of 62.9% was higher than FY10 (61.3%), owing to the effect of:

- Claims in respect of the flood events; and
- The more volatile commercial business (NZI) experiencing a number of large individual claims.

The underlying expense ratio for FY11 was flat compared to FY10, at 32.3%.

After allocated regional support and development costs, Thailand contributed a loss of \$4m to the divisional result for FY11 (FY10: \$2m profit). Allocated regional support and development costs included in the reported underwriting expense amounted to \$10m (FY10: \$11m).

THAILAND FINANCIAL PERFORMANCE

	FY10		FY11	
	Bm ¹	A\$m ²	Bm ¹	A\$m ²
Gross written premium	5,407	185	5,706	189
Net earned premium	4,020	143	4,382	149
Net claims expense	(2,463)	(88)	(2,758)	(96)
Commission & underwriting expenses	(1,299)	(47)	(1,414)	(48)
Investment income on technical reserves	112	5	57	1
Insurance profit	370	13	267	6
Allocated support & development costs		(11)		(10)
Reported insurance profit/(loss)		2		(4)
Insurance Ratios				
Loss ratio	61.3%		62.9%	
Expense ratio	32.3%		32.3%	
Combined ratio	93.6%		95.2%	
Insurance margin	9.2%		6.1%	

¹Excludes captive reinsurance result and allocated regional support and development costs.

²Includes captive reinsurance result and allocated regional support and development costs.

MARKET ENVIRONMENT, REGULATION AND REFORM

The general outlook for Thailand remains attractive. The early July 2011 election has resulted in a change in government, with minimal accompanying disruption. GDP growth for calendar 2010 was 7.8%, which represented a strong rebound, but growth is expected to moderate for 2011 and 2012 to around 5%.

Consumer and business confidence has improved following the decisive election result.

A short term concern has been the events in Japan (a key foreign investor and major source of imports), which have caused supply disruptions into Thailand's manufacturing sector. Thailand's automotive sector, in particular, has close ties to the major Japanese automakers. This has had a flow-on impact on the Thai motor insurance market.

The Thai general insurance market is forecast to grow by 4-5% in 2011. With relatively low levels of insurance penetration and strong expected GDP growth, Thailand continues to offer good long term growth prospects.

In the longer term, it remains the Group's expectation that the local regulator will enforce stricter risk-based capital requirements, placing IAG in a strong position to pursue potential M&A opportunities in a relatively fragmented market.

Thai market continues to offer attractive long term growth

9. ASIA

MALAYSIA

OPERATIONS

IAG owns a 49% interest in AmG Insurance (AmG), the general insurance arm of AmBank Group, which controls Malaysia's fifth largest bank branch network. This joint venture was established in 2006. AmG is the third largest motor insurer in Malaysia.

OPERATING PERFORMANCE

AmG delivered a steady underlying performance in FY11, as the business continues to benefit from the respective inputs from its owners:

- The strong distribution network of the AmBank Group; and
- IAG's successful capability transfer programme.

FY11 GWP was flat compared to FY10, in local currency terms. This outcome housed the following contrasting elements:

- Growth of around 8% in motor, which represented approximately 80% of GWP in FY11;
- Lower extended warranty product volumes, following a substantial reduction in their distribution through the bank channel; and
- A reassessment and non-renewal of some commercial products and risks.

AmG's insurance margin in FY11 was 13.2% (FY10: 12.2%), and incorporates a relatively stable full year loss ratio of 70.1%. During the year, a strategic refresh of significant claim processes occurred, aimed at reducing unnecessary leakage.

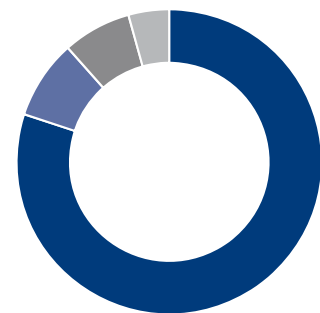
A strong overall investment return was recorded in FY11, building on that of the prior year.

Before allocated regional support and development costs, AmG reported an improved contribution of \$11m in FY11 (FY10: \$10m). Allocated regional support and development costs amounted to \$8m (FY10: \$7m), resulting in a flat net contribution of \$3m (FY10: \$3m).

AmG is a 49%-owned JV with AmBank

Steady underlying performance from AmG continues

AMG – FY11 GWP BY CLASS



- Motor
- Other
- Fire
- Personal Accident

9. ASIA

AMG FINANCIAL PERFORMANCE

	FY10 ¹		FY11 ¹	
	RMm	A\$m	RMm	A\$m
Gross written premium	649	217	647	212
Net earned premium	509		555	
Net claims expense	(359)		(389)	
Commission & underwriting expenses	(126)		(136)	
Investment income on technical reserves	38		43	
Insurance profit	62		73	
Net profit after tax	62		69	
Net profit after tax - IAG's share (49%)	30	10	34	11
Allocated support & development costs		(7)		(8)
Reported share of profit from associate		3		3
Insurance Ratios				
Loss ratio	70.5%		70.1%	
Expense ratio	24.8%		24.5%	
Combined ratio	95.3%		94.6%	
Insurance margin	12.2%		13.2%	

¹Figures represent AmG's results for the year ended 30 June (AmG reports on a 31 March year end basis).

MARKET ENVIRONMENT, REGULATION AND REFORM

The Malaysian economy grew by approximately 7% in calendar 2010 and is projected to grow by 5-6% in 2011. Forecast growth is underpinned by strong domestic demand and a positive reform environment.

Moderate growth in new car sales has been recorded in the opening months of calendar 2011.

Malaysia's general insurance market grew by 8.6% in calendar 2010 in local currency terms. With solid GDP growth, a strengthening regulatory environment and significant development in insurance penetration still to come, Malaysia continues to offer good long term growth prospects. The industry continues to go through a period of consolidation, with a number of recent transactions completed.

The Malaysian government is working with stakeholders to implement significant reforms to the Third Party Bodily Injury (TPBI) scheme. Due to the complexity of the issues, satisfactory resolution may take some time. AmG's TPBI book remained stable during the year. This product area, which is necessarily underwritten as part of participating in the motor insurance market, represented only 6% of AmG's GWP for FY11.

INDIA

OPERATIONS

IAG owns a 26% interest in SBI General Insurance Company (SBI General), a joint venture with State Bank of India (SBI), India's largest bank. The interest was acquired in November 2009 for \$126m (5.4bn Indian rupees).

In the longer term, SBI General plans to build a portfolio with a presence in the corporate, retail and SME markets across India, with the majority in the retail segment distributed through SBI's bancassurance channel.

Positive economic and industry growth outlook

Expanded launch of SBI General commenced in 2H11

9. ASIA

IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit. It remains the Group's expectation that, at its current ownership level, no further capital will be required for approximately four years from commencement in 2010.

IAG appointees occupy a number of key positions, including Deputy CEO. IAG also has two Board positions.

OPERATING PERFORMANCE

SBI General is a start-up operation and commenced limited underwriting from April 2010. Significant investment has been made in the development of a tailored IT system which is enabling an expanded launch. This commenced in March 2011. In recognition of the high quality of systems delivered, SBI General recently won the 'Enterprise Architecture' award at the prestigious International Architecture World Conference.

SBI General has now recruited over 420 staff. During FY11 the number of IAG personnel based in India reduced as some of the near term capability transfer programmes finished and the business moved towards establishment.

For FY11, SBI General generated GWP of \$20m (IAG's 26% share being approximately \$5m), compared to a negligible amount in FY10. India contributed a loss of \$6m to the divisional result after allocated regional support and development costs of \$2m. This was in line with expectations.

Start-up losses in line with expectations

SBI GENERAL FINANCIAL PERFORMANCE

	FY11 ¹	
	INRm	A\$m
Gross written premium	887	20
Net loss after tax	(658)	
Net loss after tax - IAG's share (26%)	(171)	(4)
Allocated support & development costs ²		(2)
Reported share of profit from associate		(6)

¹Figures represent SBI General's results for the year ended 30 June (SBI General reports on a 31 March year end basis).

²Prior to the expanded launch of SBI General in 2H11, the costs associated with establishment of the business were allocated across the other Asian operating businesses. From 2H11 those costs are allocated exclusively to SBI General.

MARKET ENVIRONMENT, REGULATION AND REFORM

The general insurance market in India grew by 21.7% in the year to 31 March 2011 and is forecast to grow by 15-20% per annum over the next decade. Aggregate private sector growth for the year to 31 March 2011 was 22.5%, compared to 21.1% for the public sector.

The regulatory framework continues to incorporate reforms conducive for growth in the insurance industry.

Indian market exhibiting strong growth

9. ASIA

CHINA

China remains an attractive general insurance market underpinned by strong forecast growth in GDP, GWP and motor vehicle sales. GDP is forecast to grow by 9% per annum over at least the next two years, while the general insurance market is expected to increase in size by 10-15% per annum over the next decade.

On 15 August 2011, IAG announced it had agreed to inject a sum of RMB687.5m (approximately \$100m) into Bohai Property Insurance Pty Ltd (Bohai Insurance), in return for a 20% strategic interest.

Bohai Insurance was established in 2005, has a predominantly motor insurance focus and current annualised GWP in excess of \$200m.

Bohai Insurance is an attractive partner for IAG. It is headquartered in Tianjin and has a strong emphasis on the surrounding pan-Bohai region which accounts for around 30% of China's GDP and an equivalent portion of China's annual GWP pool, which currently stands at approximately \$60bn.

Under the terms of the agreement, IAG will have Board and senior management representation within Bohai Insurance. The investment is expected to be completed by early calendar 2012, following regulatory approvals.

Strategic investment in Bohai Insurance announced

REGIONAL SUPPORT AND DEVELOPMENT COSTS

As IAG broadens its operational footprint in Asia, regional support and development costs are borne within the division's reported results. These costs cover a wide range of activities, including the divisional level management, on-the-ground capability transfer teams, operational start-up costs and the costs of developing opportunities in new and existing markets.

The regional support and development costs are largely self-funded within the division and, for reporting purposes, are allocated between the consolidated businesses and share of associates. Total regional support and development costs for FY11 increased to \$20m (FY10: \$18m) owing to additional expenditure on efforts to establish a presence in China and pursue new opportunities in Indonesia and Vietnam.

Increased business development costs in respect of new opportunities

REGIONAL SUPPORT & DEVELOPMENT COSTS - ALLOCATION

	FY10	FY11
	\$m	\$m
Thailand (Safety Insurance / NZI)	11	10
Malaysia (AmG Insurance)	7	8
India (SBI General) ¹	-	2
Total regional support & development costs	18	20

¹ Prior to the expanded launch of SBI General in 2H11, the costs associated with establishment of the business were allocated across the other Asian operating businesses. From 2H11 those costs are allocated exclusively to SBI General.

FY12 OUTLOOK

It is anticipated that the underlying performance of the Thai and Malaysian businesses will be steady in FY12. Sound organic growth is expected in both markets.

The further implementation of systems at SBI General, supporting the expanded launch of the business, is a key focus area for FY12. Very strong GWP growth is anticipated, off a small base, along with further operating losses as the business continues to progress through its start-up phase.

A further priority will be establishing the partnership with Bohai Insurance in China, following the recently announced agreement to purchase a 20% strategic interest. Regulatory approval of this transaction is expected in early 2012.

While the division's immediate growth strategy is based on the selected markets of Thailand, Malaysia, India and China, additional markets and opportunities therein have begun to be assessed. These will be progressed in FY12, with Indonesia and Vietnam now identified as specific markets of interest.

Expanded launch of SBI General a key focus in FY12

10. REINSURANCE

REINSURANCE STRATEGY

IAG's reinsurance programme is an important part of the Group's overall approach to capital management. The Group has a philosophy of limiting its main catastrophe retention to a maximum of 4% of net earned premium. Its current retentions are below this level.

The Group determines its reinsurance requirements for Australia and New Zealand on a modified whole of portfolio basis (where whole of portfolio is the sum of all correlated risk). The limits purchased reflect a 1-in-250 year return period.

The Group's Australian-based captive reinsurer captures 100% of the reinsurance spend of the Australian businesses. Whilst the bulk of the facultative reinsurance underwritten is passed straight through to the external market, the Group captures counter-party and regulatory exposures within a single entity.

IAG's international business units continue to place some reinsurance directly with the external market. However, the Group's international captive reinsurers underwrite close to 100% of New Zealand treaty business and a substantial amount from the UK and Asia.

MARKET ENVIRONMENT

The last 18 months have proved a challenging time for natural peril losses. Australia and New Zealand have experienced an unprecedented number of both severe and frequent losses to which insurers and, in turn, reinsurers have responded. Despite this, reinsurance capacity has been resilient and continues to remain available to the Group. The challenge over the next period will be the price of this capacity, with reinsurance rates rising.

The Group renewed its catastrophe programme during this testing period. At 1 January 2011, IAG placed its entire programme on a similar basis to 2010, observing moderate rate increases in the region of 10%, after allowing for aggregate growth. With continued loss activity in 2011, further reinsurance rate increases are expected at the Group's next renewal on 1 January 2012.

CATASTROPHE COVER

In the face of severe natural peril activity across FY11, the Group's catastrophe reinsurance cover has provided considerable protection during the year and performed in line with expectations.

Operating on a calendar year basis, the Group's catastrophe reinsurance protection at renewal on 1 January 2011 comprised:

- The main catastrophe programme, operating on an excess of loss basis for all territories and providing cover up to \$4.1bn, with the Group retaining the first \$250m of each loss;
- A three-year arrangement to reduce the maximum event retention (MER) of the Group below \$250m, to \$150m in Australia and \$115m for New Zealand, as well as specific covers reducing the UK to \$53m;
- Second and third event covers, together with a number of other tactical purchases; and
- A property catastrophe aggregate cover of \$150m excess of \$150m, providing protection for accumulated losses arising from events larger than \$15m, across IAG's operations, capped at a maximum of \$50m per event.

Reinsurance is a key part of IAG's overall approach to capital management

Upwards pressure on reinsurance rates, but capacity available

The Group's catastrophe protection has performed to expectations

10. REINSURANCE

The scale of natural peril events in the opening half of calendar 2011 has been such that much of the group's lower layer protection has been utilised, while the Christchurch earthquake in February has prompted the Group to purchase reinstatement cover in the main programme. As at 30 June 2011, the status of the Group's catastrophe reinsurance cover for the period to 31 December 2011 can be summarised as:

- Main programme protection for a further two events up to \$4.1bn, following purchased reinstatements, with the Group retaining the first \$250m;
- A number of tactical covers in place below \$250m, together with approximately \$25m available under the aggregate cover; and
- An MER of approximately \$150m for any next event, after allowing for all remaining lower layer covers, including the aggregate.

It is the Group's current expectation that the MER will be approximately \$150m upon renewal of the catastrophe reinsurance programme at 1 January 2012.

The Group has a customised event definition in its catastrophe reinsurance contract wording which ensures that covers provide appropriate protection to the Group, both in terms of geographical exposure and event duration. IAG's reinsurance protections were extended in 2010 to provide cover for flood where it is offered in the original policy.

OTHER COVERS

IAG has a comprehensive suite of per risk and proportional reinsurances which protect the Group in all territories in which it underwrites.

The casualty reinsurances were renewed at 30 June 2011 with minimal price increases. Unlimited cover is purchased on statutory classes where available and for other lines cover was placed up to the original underwriting limits for each class. Cover is also secured for potential accumulations within a class or between classes of business.

COUNTER-PARTY RISK

The counter-party credit profiles for the current key reinsurances of the Group are:

- 83% of limits placed with 'A+' or better rated entities for the property catastrophe programme; and
- 100% of limits placed with 'A+' or better rated entities for the casualty programme.

Casualty reinsurances renewed with minimal price increases

Strong counter-party risk profile

11. INVESTMENTS

INVESTMENT PHILOSOPHY

The Group's investment philosophy is:

- To manage the assets backing technical reserves and shareholders' funds separately, subject to regulatory or other structural constraints;
- To invest the assets backing technical reserves, wherever possible, in a combination of government and high quality fixed interest securities with interest rate sensitivities that match the underlying insurance liabilities;
- To invest the Group's shareholders' funds to maximise return, consistent with the Group's risk appetite and flexibility requirements;
- To invest Group assets such that the contribution of investment risk to IAG's earnings volatility should not dominate the contribution from insurance risk;
- To generate cost-effective and consistent added value to technical reserves and shareholders' funds in accordance with agreed benchmarks and within strict risk tolerance parameters; and
- To maintain highly liquid portfolios, invested in accordance with Group policies.

INVESTMENT STRATEGIES

As at 30 June 2011, the Group's overall investment allocation remained conservatively positioned with around 87% of total investments in fixed interest and cash. Technical reserves remained almost entirely invested in fixed interest and cash, whilst the equivalent figure for shareholders' funds was nearly 59%.

It is the Group's longer term intent to move towards a target allocation of 50% to growth assets in shareholders' funds, and in doing so to utilise alternative assets that have growth asset return characteristics and result in lower overall portfolio volatility than listed equities. Since the end of FY09, growth assets as a proportion of shareholders' funds have increased from less than 22% to in excess of 41%.

Much of this increase has centred on alternative assets, and specifically global convertible bonds. The Group's allocation to alternative assets is now approximately 18% of shareholders' funds.

GROUP INVESTMENT ASSETS

The Group's investments totalled \$11.9bn as at 30 June 2011, excluding investments held in joint ventures and associates. This compares to \$11.8bn at 31 December 2010 and \$11.7bn at 30 June 2010.

Technical reserves invested in duration-matched fixed interest securities

Steady increase in growth assets weighting within shareholders' funds

Increase in total investments to \$11.9bn

INVESTMENT ASSETS

	1H10 A\$bn	2H10 A\$bn	1H11 A\$bn	2H11 A\$bn
Technical reserves	7.9	8.4	8.1	8.3
Shareholders' funds	3.6	3.3	3.7	3.6
Total investment assets	11.5	11.7	11.8	11.9
Other funds managed on behalf of third parties	0.5	0.5	0.5	0.5

11. INVESTMENTS

ASSET ALLOCATION

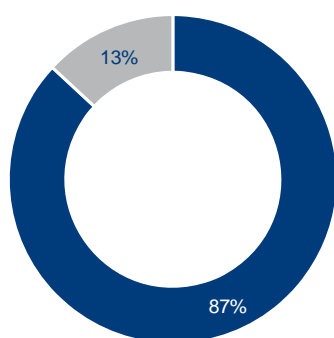
Since 30 June 2010, the most significant change in asset allocation has been the increased exposure to growth assets (equities and alternatives) within shareholders' funds. Over the course of FY11, growth assets have risen from 37% to over 41% of shareholders' funds, in line with previously expressed intent. This has been via an increased allocation to alternative assets.

87% of total investments in fixed interest and cash

ASSET ALLOCATION

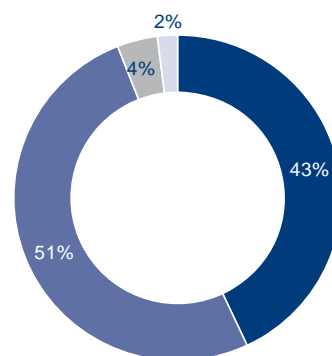
	1H10	2H10	1H11	2H11
	%	%	%	%
Shareholders' funds				
Australian equities	14.4	19.4	19.8	18.1
International equities	4.5	5.5	5.0	5.4
Alternatives	5.0	12.2	15.4	17.6
Fixed interest and cash	76.1	62.9	59.8	58.9
Total	100.0	100.0	100.0	100.0
Technical reserves				
Australian equities	-	-	-	-
International equities	-	-	-	-
Alternatives	0.4	0.2	0.2	1.0
Fixed interest and cash	99.6	99.8	99.8	99.0
Total	100.0	100.0	100.0	100.0
Total shareholders' funds & technical reserves				
Australian equities	4.6	5.4	6.2	5.5
International equities	1.4	1.5	1.6	1.6
Alternatives	1.9	3.5	5.0	6.0
Fixed interest and cash	92.1	89.6	87.2	86.9
Total	100.0	100.0	100.0	100.0

GROUP ASSET ALLOCATION – 30 JUNE 2011



- Fixed Interest and Cash
- Growth

CREDIT QUALITY – 30 JUNE 2011



- "AAA"
- "AA"
- "A"
- < "A"

11. INVESTMENTS

CREDIT QUALITY OF ASSETS

The credit quality of the Group's investment book remains high, with 94% of the fixed interest and cash portfolio rated 'AA' or better. All credit assets are performing and meeting interest and principal repayment obligations.

High credit quality maintained

SENSITIVITY ANALYSIS

As at 30 June 2011, the sensitivity of the Group's net profit before tax to investment market movements was as set out in the table below.

SENSITIVITY OF NET PROFIT BEFORE TAX – AS AT 30 JUNE 2011

	Change in Assumption	
	+1% A\$m	-1% A\$m
Equity market values:		
Australian equities	7	(7)
International equities ¹	5	(5)
Interest rates:		
Assets backing technical provisions	(226)	242
Assets backing shareholders' funds ¹	(32)	34
Total investment returns	(258)	276

¹Includes indirect sensitivities relating to alternative asset classes.

INVESTMENT PERFORMANCE

A summary of the investment income and the investment returns generated on the technical reserves and shareholders' funds portfolios is set out in the following table. The percentage returns are net of transaction costs, management fees and expenses, but before income tax.

2H11 investment returns reflect rallying bond prices and weaker equity markets

INVESTMENT RETURNS (INCLUDING DERIVATIVES)¹

	1H10		2H10		1H11		2H11		FY10		FY11	
	A\$m	% ²	A\$m	% ²	A\$m	% ²	A\$m	% ²	A\$m	%	A\$m	%
Technical reserves	210	2.7	344	4.1	149	1.8	340	4.1	554	6.6	489	5.9
Shareholders' funds	187	5.2	5	0.2	147	4.0	66	1.8	192	5.8	213	5.9
RES revaluation	(96)	-	-	-	-	-	-	-	(96)	-	-	-
Total investment income	301	2.6	349	3.0	296	2.5	406	3.4	650	5.6	702	5.9

¹Returns are accounting yields, being investment income based on average exchange rates divided by closing funds under management.

²Half year returns have not been annualised.

Investment income on technical reserves was higher during 2H11 than in 1H11, reflecting rallying bond markets on the back of renewed pessimism associated with the financial predicament of several European nations, notably Greece, Ireland and Portugal.

Investment returns on shareholders' funds were lower in 2H11 owing to weaker equity markets compared to 1H11. This was slightly offset by growth in investment income from alternative investments, and primarily the convertible bonds portfolio which has performed strongly over the period.

12. BALANCE SHEET & CAPITAL

BALANCE SHEET

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m
Assets				
Cash and cash equivalents	387	416	413	509
Investments	11,540	11,734	11,810	11,893
Investments in joint ventures and associates	255	283	299	284
Premium receivable	1,896	2,046	1,876	2,081
Trade and other receivables ¹	376	663	586	560
Reinsurance and other recoveries on outstanding claims ¹	1,272	1,488	2,264	3,904
Deferred acquisition costs	688	688	634	683
Deferred reinsurance expense	370	258	423	371
Intangible assets	361	301	211	225
Goodwill	1,834	1,782	1,642	1,644
Other assets	774	783	621	769
Total assets	19,753	20,442	20,779	22,923
Liabilities				
Outstanding claims	7,576	8,253	8,847	10,783
Unearned premium	4,033	4,207	4,117	4,355
Interest bearing liabilities	1,586	1,450	1,380	1,377
Trade and other payables ¹	724	1,037	834	826
Other liabilities	794	839	943	1,002
Total liabilities	14,713	15,786	16,121	18,343
Net assets	5,040	4,656	4,658	4,580
Equity				
Equity attributable to holders of ordinary shares	4,886	4,486	4,511	4,417
Non-controlling interests	154	170	147	163
Total equity	5,040	4,656	4,658	4,580

¹ Goods and Services Tax (GST) on outstanding claims and recoveries has been reclassified to 'Reinsurance and other recoveries on outstanding claims', from 'Trade and other receivables' and 'Trade and other payables'.

The total assets of the Group as at 30 June 2011 were \$22,923m compared to \$20,779m at 31 December 2010. This increase reflects higher reinsurance recoverables, following the increased level of natural peril events incurred in 2H11.

The other assets category represents the aggregate of current and deferred tax assets, prepayments, property and equipment, deferred expenditure and other assets.

The total liabilities of the Group as at 30 June 2011 were \$18,343m, compared to \$16,121m at 31 December 2010. The movement is primarily attributable to the substantial increase in outstanding claims following severe natural peril activity in 2H11.

12. BALANCE SHEET & CAPITAL

The other liabilities category represents the aggregate of current and deferred tax liabilities, employee provisions, unitholders' funds held by external holders of units in IAG-controlled trusts, reinsurance premiums payable and lease and other provisions.

The decrease in IAG shareholders' equity (excluding non-controlling interests), from \$4,511m at 31 December 2010 to \$4,417m at 30 June 2011, largely reflects the net effect of:

- A 2H11 reported profit attributable to shareholders of \$89m; less
- Dividends of \$187m that were declared and paid during the period.

GOODWILL & INTANGIBLES

Total goodwill and intangibles at 30 June 2011 stood at \$1,869m, down from \$2,083m at 30 June 2010, and comprises \$1,644m of goodwill (FY10: \$1,782m) and \$225m of other intangible assets (FY10: \$301m).

The most significant divisional movement over the year is the reduction in goodwill and intangibles in respect of the UK. This includes a \$150m impairment identified in 1H11, as well as an adverse foreign exchange translation effect.

UK intangibles reduced by FX effect and \$150m write down in 1H11

GOODWILL & INTANGIBLES – BY DIVISION

	FY10 A\$m	FY11 A\$m
Australia Direct	599	601
Australia Intermediated	595	623
New Zealand	293	280
United Kingdom	542	320
Asia	54	45
Total goodwill & intangibles	2,083	1,869

OUTSTANDING CLAIMS

NET OUTSTANDING CLAIMS LIABILITY

The Group's net outstanding claims liability at 30 June 2011 stood at \$6,879m, compared to \$6,765m at 30 June 2010. The net liability at each balance date was inflated by significant natural peril activity in the preceding six months:

- The major hailstorm events in March 2010 in Melbourne and Perth; and
- The sequence of major natural peril incidents across Australia and New Zealand in the opening six months of calendar 2011.

As at 30 June 2011, the sensitivity of the Group's net outstanding claims liability to a 1% movement in the discount rate, as applied to expected future payments, was:

- +1%, a reduction in net outstanding claims liability of \$210m; and
- -1%, an increase in net outstanding claims liability of \$231m.

Net claims liability inflated by severe peril activity in 2H11

12. BALANCE SHEET & CAPITAL

CLAIMS DEVELOPMENT

Note 11 of the Group's Financial Report includes a claims development table that shows the development of the estimated net undiscounted outstanding claims liability relative to the current estimate of ultimate claims costs for the ten most recent accident years as estimated at each reporting date. An extract from that table is set out below.

CLAIMS DEVELOPMENT TABLE

	Accident Year Ended 30 June											TOTAL
	2001 and prior	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Development												
At end of accident year		3,199	3,336	3,475	3,585	3,934	4,545	4,490	4,517	4,476	4,795	
One year later		3,126	3,159	3,309	3,539	3,862	4,510	4,447	4,544	4,450		
Two years later		3,065	3,084	3,336	3,507	3,793	4,475	4,437	4,480			
Three years later		3,031	3,053	3,320	3,463	3,796	4,480	4,417				
Four years later		3,010	2,999	3,304	3,428	3,782	4,410					
Five years later		2,981	3,006	3,293	3,377	3,757						
Six years later		2,981	3,000	3,265	3,351							
Seven years later		2,961	2,987	3,260								
Eight years later		2,962	2,985									
Nine years later		2,952										
Current estimate of net ultimate claims payments		2,952	2,985	3,260	3,351	3,757	4,410	4,417	4,480	4,450	4,795	
Cumulative payments made to date		(2,913)	(2,925)	(3,155)	(3,231)	(3,500)	(4,033)	(3,913)	(3,698)	(3,300)	(2,638)	
Net undiscounted outstanding claims payments	607	39	60	105	120	257	377	504	782	1,150	2,157	6,158
Discount to present value	(188)	(7)	(11)	(20)	(19)	(38)	(45)	(62)	(88)	(131)	(185)	(794)
Net discounted outstanding claims liability	419	32	49	85	101	219	332	442	694	1,019	1,972	5,364
Claims handling expense												342
Risk margin												1,173
Net outstanding claims liability												6,879
Gross outstanding claims liability on the balance sheet												10,783
Reinsurance and other recoveries on outstanding claims												(3,904)
Net outstanding claims liability												6,879

The above table shows a history of the claim reserves being conservatively stated and demonstrates favourable development across the period, as the ultimate claim costs were settled or became more certain.

The table highlights that, as at 30 June 2011, more than 90% of the total estimated liability for the 2002 to 2007 accident years had been paid, for the 2008 and 2009 accident years more than 80% had been paid, and for 2010 over 70% had been paid.

12. BALANCE SHEET & CAPITAL

RISK MARGINS

The claims development table also identifies the total risk margin held to allow for the uncertainty surrounding the outstanding claims liability estimation process. The risk margin is set to take into account the correlations assessed between outstanding claim liabilities arising from the various forms of business underwritten by the different entities within the consolidated Group. The aggregated central estimate plus the risk margin is calculated on a diversified basis and this forms the outstanding claims liability.

The Group's policy is for the risk margin to be set so as to provide an overall probability of adequacy for the outstanding claims liability of at least 90%, which has been determined having regard to the inherent uncertainty in the central estimate and the prevailing market environment. The Group's probability of adequacy of the claims liability for FY11 is at least 90%, which is unchanged from the prior year.

Insurers are in the business of accepting and managing risks. A key feature of insurance businesses is diversification between risks and without it the insurance business would not exist. The Group uses diversification to manage the portfolio of risks that arises in the business.

The risk margin at the end of FY11 as a percentage of the net discounted outstanding claims liability was 20.6%, compared to 19.4% in FY10.

CAPITAL

CAPITAL ADEQUACY

The Group retains a target minimum capital requirement (MCR) multiple of 1.45 to 1.50 as a long term benchmark.

At 30 June 2011 the Group's MCR multiple stood at 1.58, compared to 1.81 at 31 December 2010. The movement reflects the combined impact of increased natural peril activity in 2H11 on:

- Significantly higher balance sheet values, notably outstanding claims and reinsurance recoveries, resulting in respective increases to insurance risk and investment risk capital requirements; and
- Higher reinsurance costs which, at 30 June 2011, had yet to be fully reflected in pricing, resulting in lower excess technical provisions.

It is the Group's expectation that these effects will unwind in future periods as claims are settled, reinsurance recoveries received and pricing increases implemented.

Reflecting the above factors, the Group's regulatory capital has decreased to \$3,933m (31 December 2010: \$4,184m) and its MCR increased to \$2,496m (31 December 2010: \$2,315m).

The Group believes it is prudent to retain an above benchmark capital position over the short term, given the current volatility in global financial markets and the pending finalisation of APRA's current review of the industry's capital standards. At present, the Group has no cause to believe the regulator's review will result in a material change to IAG's capital requirements.

90% probability of adequacy maintained

Capital position remains above benchmark

12. BALANCE SHEET & CAPITAL

GROUP COVERAGE OF REGULATORY CAPITAL REQUIREMENT

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m
Tier 1 capital				
Paid-up ordinary shares	5,353	5,353	5,353	5,353
Non-controlling interests	154	170	147	163
Treasury shares	(34)	(31)	(35)	(32)
Hybrid equity ¹	496	475	496	451
Reserves	(37)	(34)	(91)	(84)
Retained earnings	(362)	(775)	(692)	(795)
Excess technical provisions (net of tax)	482	522	454	381
Less: deductions ²	(2,789)	(2,513)	(2,326)	(2,430)
Total Tier 1 capital	3,263	3,167	3,306	3,007
Tier 2 capital				
Hybrid equity in excess of Tier 1 limit ¹	404	425	404	449
Subordinated debt ³	537	536	465	461
Other	4	12	9	16
Total Tier 2 capital	945	973	878	926
Capital base	4,208	4,140	4,184	3,933
Minimum Capital Requirement (MCR):				
Insurance risk	1,242	1,344	1,315	1,410
Investment risk	693	790	850	911
Catastrophe concentration risk ⁴	135	20	150	175
Total MCR	2,070	2,154	2,315	2,496
MCR multiple	2.03	1.92	1.81	1.58

¹Hybrid equity includes Reset Exchangeable Securities and Reset Preference Shares. These securities are classified under APRA's prudential standards as 'Innovative Tier 1' and are eligible to be included in Tier 1 capital up to a limit of 15% of net Tier 1 capital. The aggregate amount of these securities in excess of this limit is included in Tier 2 capital.

²Includes goodwill and intangibles, net deferred tax assets, capitalised software, deferred reinsurance expense and expected dividends.

³The amount of subordinated debt eligible to be included in Tier 2 capital excludes capitalised transaction costs and discount on issue, and for foreign currency denominated debt, the liability is translated at the current exchange rate excluding any related cross-currency swaps.

⁴Includes reinstatement costs.

INTEREST BEARING LIABILITIES

The Group's interest bearing liabilities stood at \$1,377m at 30 June 2011, consistent with the position at 31 December 2010.

In July 2011 the Group announced amended terms for its £157m subordinated exchangeable loan note issue, with effect from October 2011. Following the amendments, the date at which the notes may be redeemed or exchanged into IAG ordinary shares has been extended to December 2012, and the notes will pay a reduced coupon of LIBOR +1.875% (previously LIBOR +2.5%). The notes will continue to qualify as lower Tier 2 capital under current regulatory requirements.

Terms of sterling note issue amended

12. BALANCE SHEET & CAPITAL

INTEREST BEARING LIABILITIES

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m
Subordinated debt	540	541	468	463
Cross-currency swap payable	135	-	-	-
Reset Preference Shares	350	350	350	350
Reset Exchangeable Securities	550	550	550	550
Capitalised transaction costs	(3)	(5)	(3)	(2)
Other	14	14	15	16
Total interest bearing liabilities	1,586	1,450	1,380	1,377

GROUP DEBT & HYBRID CAPITAL

	Principal amount m	A\$m	Yield (net of swaps) %	Rate	Call, reset or maturity date	S&P rating
£157m subordinated exchangeable term notes ¹	£157	235	3.62%	Variable	Dec-12	'A'
NZ\$100m subordinated fixed rate notes	NZ\$100	77	9.11%	Fixed	Nov-12	'A+'
£100m subordinated fixed rate notes ²	£100	151	5.63%	Fixed	Dec-16	'A'
Total Debt		463				
Reset Preference Shares (IAGPA) ³	A\$350	350	5.63%	Fixed	Jun-12	'A'
Reset Exchangeable Securities (IANG) ⁴	A\$550	550	6.32%	Variable	Dec-19	'A'

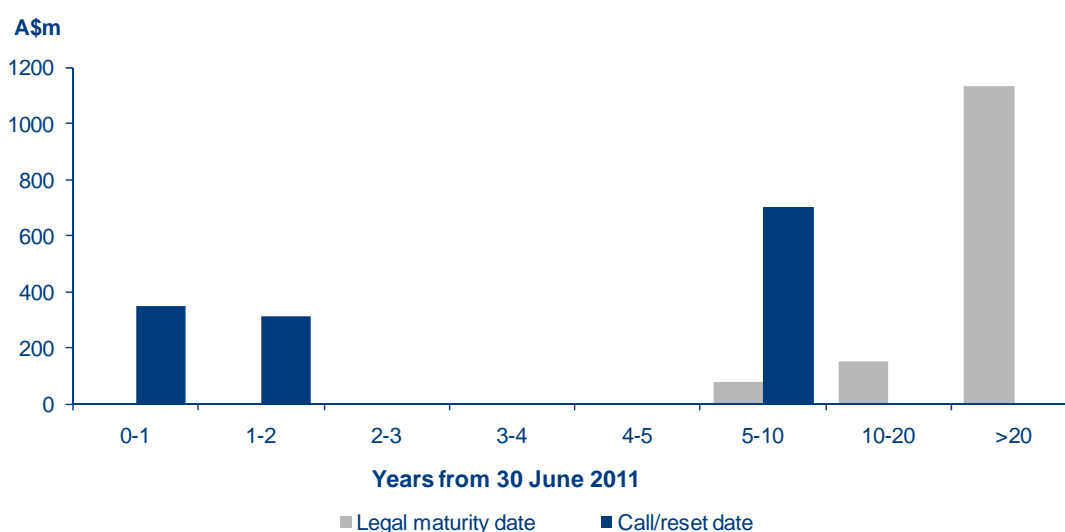
¹ Stated yield based on the existing margin of LIBOR +2.50%, which reduces to LIBOR +1.875% from October 2011. The call date has also been extended from October 2011 to December 2012.

² IAG has bought back (but not cancelled) approximately £42m of the total outstanding notes on issue of £142.4m, as at 30 June 2011.

³ Dividend yield on the Reset Preference Shares is a cash yield, excluding attached franking credits. The principal excludes capitalised transaction costs.

⁴ The Reset Exchangeable Securities pay floating rate quarterly interest. The yield shown is the current cash yield, excluding attached franking credits.

GROUP DEBT MATURITY PROFILE



12. BALANCE SHEET & CAPITAL

CAPITAL MIX

The Group measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. It is IAG's intention to have a capital mix in the following ranges over the longer term:

- Ordinary equity (net of goodwill and intangibles) 60-70%; and
- Debt and hybrids 30-40%.

At 30 June 2011, the Group's capital mix was near the mid-point of the targeted range, with debt and hybrids representing 33.7% of total tangible capitalisation.

Capital mix near mid-point of targeted range

CAPITAL MIX

	1H10 A\$m	2H10 A\$m	1H11 A\$m	2H11 A\$m
Shareholder equity	5,040	4,656	4,658	4,580
Intangibles and goodwill	(2,195)	(2,083)	(1,853)	(1,869)
Tangible shareholder equity	2,845	2,573	2,805	2,711
Interest bearing liabilities	1,586	1,450	1,380	1,377
Total tangible capitalisation	4,431	4,023	4,185	4,088
Debt to total tangible capitalisation	35.8%	36.0%	33.0%	33.7%

CREDIT RATINGS

















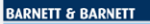
On 4 August 2011, Standard & Poor's (S&P) affirmed its 'very strong' 'AA-' ratings on IAG's core operating companies and its 'A+' rating on IAG (the ultimate parent entity). The outlook on all entities remains stable.

APPENDIX A – GROUP OPERATING MODEL

GROUP OPERATING MODEL

The Group has a portfolio of end-to-end general insurance businesses aligned around customers, brands and markets. In this devolved model, accountability and responsibility are close to the end customer. This provides the operating businesses with control over the levers needed to execute strategies and manage performance, but within an overall Group framework. The operating model is summarised below.

PORTFOLIO OF INSURANCE BRANDS AND MARKETS

	DIRECT INSURANCE	INTERMEDIATED INSURANCE		DIRECT INSURANCE	INTERMEDIATED INSURANCE		DIRECT INSURANCE	INTERMEDIATED INSURANCE		
AUSTRALIA	 		NEW ZEALAND		ASIA	3 	4 	5 	UNITED KINGDOM	
	  ¹			INTERMEDIATED INSURANCE 						
	  ²									
ACTIVE PORTFOLIO MANAGEMENT & GOVERNANCE (CORPORATE OFFICE)										

¹ IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% by RACV.

² RACV has a 30% interest in The Buzz.

³ IAG owns 49% of the general insurance arm of Malaysian-based AmBank Group, AmG Insurance Berhad, which trades under the AmAssurance brand.

⁴ IAG holds 98% voting rights in Safety Insurance, based in Thailand.

⁵ IAG has 26% ownership of SBI General Insurance Company, a joint venture with State Bank of India.

APPENDIX B – IAG SNAPSHOT

AUSTRALIA DIRECT

Direct insurance products, which include personal insurance as well as business insurance packages targeted at sole operators and smaller businesses, are sold primarily under the NRMA Insurance brand in NSW, ACT, Queensland and Tasmania. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Victoria, home, motor and other insurance products are distributed through RACV. Products are distributed through branches, call centres, the internet and representatives. A nationwide online brand, The Buzz, was launched in May 2009, initially focusing on car insurance and extended to home products in June 2010.

AUSTRALIA INTERMEDIATED

Intermediated insurance products are sold primarily under the CGU Insurance and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU is a leading provider of business and farm insurance, as well as personal insurance, across Australia. It also provides workers' compensation services in every State and Territory, except South Australia and Queensland.

NEW ZEALAND

The New Zealand business is the leading insurance provider in the country in the direct channel and a leading insurer in the broker/agent channel. Insurance products are provided directly to customers under the State brand and indirectly, through insurance brokers and agents, under the NZI brand. The personal lines and simplified commercial products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions.

Short tail insurance

- Motor vehicle
- Home and contents
- Niche insurance, such as pleasure craft, veteran and classic car, caravan and travel
- Commercial property
- Commercial motor and fleet motor
- Farm, crop and livestock

Long tail insurance

- Compulsory Third Party (motor injury liability)
- Public and products liability

Short tail insurance

- Commercial property
- Commercial motor and fleet motor
- Construction and engineering
- Farm, crop and livestock
- Marine
- Motor vehicle
- Home and contents
- Niche insurance, such as consumer credit and travel

Long tail insurance

- Public and products liability
- Professional indemnity
- Directors' and officers'
- Workers' compensation

Short tail insurance

- Motor vehicle
- Home and contents
- Commercial property, motor and fleet motor
- Construction and engineering
- Niche insurance, such as pleasure craft, boat, caravan and travel
- Rural and horticultural
- Marine

Long tail insurance

- Personal liability
- Income protection
- Commercial liability

UNITED KINGDOM

In the UK, IAG has a specialist motor underwriting operation, Equity Red Star (ERS). Commencing operations in 1946, ERS is the largest motor syndicate at Lloyd's, providing insurance to business and personal lines customers. The UK business also includes Equity Direct Broking Limited (EDBL) affinity business and specialist commercial brokers Barnett & Barnett and NBJ.

ASIA

The Group has interests in four insurance businesses in Asia:

- Controlling economic interests in NZI and Safety Insurance in Thailand;
- A 49% share of AmG Insurance Berhad, a general insurance joint venture in Malaysia; and
- A 26% interest in SBI General Insurance Company, a general insurance joint venture in India which commenced trading in 2010.

The Group has also announced the acquisition of a 20% interest in Bohai Property Insurance Pty Ltd, a Tianjin-based general insurer. Regulatory approval for the transaction is expected in early calendar 2012.

APPENDIX C – KEY RELATIONSHIPS

NRMA MOTORING & SERVICES



NRMA Motoring & Services was established in 1920 and is a mutual organisation with over 2.3 million members in NSW and the ACT. Until August 2000 it owned the NRMA Insurance business which now forms the bulk of IAG's Australia Direct division. Under the terms of the demutualisation agreements, from that date NRMA Motoring & Services and IAG co-own the NRMA brand, with the respective parties having the following exclusive rights to its use:

- NRMA Motoring & Services - roadside assistance and other motoring services (except smash repairs), motoring products, transportation and travel.
- IAG (NRMA Insurance) - insurance and financial services and any other good or service not specifically reserved for NRMA Motoring & Services.

In addition, both parties cannot, under any brand, carry out activities engaged in by the other at the point of demutualisation.

IAG continues to provide certain services to NRMA Motoring & Services, notably those in respect of the NRMA branch network which is operated and managed by IAG. The two organisations retain a strong and closely aligned relationship.

NRMA Motoring & Services and its members received IAG shares as consideration for the NRMA Insurance business at demutualisation.

RACV



RACV is a mutual organisation incorporated in 1901. It provides a broad range of services to more than two million members. These services include: insurance; finance; roadside assistance; general mobility, road safety and vehicle design advocacy; and leisure, which includes club and resorts, touring and travel products and services.

IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV Limited established in 1999. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is owned 70% by IAG and 30% by RACV.

If one of IMA's shareholders were to experience a change of control, the other has a pre-emptive right to acquire that shareholder's interest in IMA at market value. The duration of the arrangements governing RACV's distribution of RACV-branded products in Victoria would be a relevant factor in determining this market value, as would the duration of the arrangements governing IMA's reinsurance of NRMA-branded products in NSW and the ACT.

RACV also has a 30% interest in The Buzz.

APPENDIX C – KEY RELATIONSHIPS

AMBANK GROUP

Established in August 1975, AmBank Group has the fifth largest bank branch network in Malaysia.

The Group provides a wide range of investment banking, commercial banking, retail financing and related financial services, which also include Islamic banking, underwriting of general and life insurance, stock, share and futures broking, investment advisory services as well as asset, property and unit trust management.

IAG has a general insurance joint venture in Malaysia with AmBank, AmG Insurance Berhad (AmG), which was established in 2006. AmBank owns 51% of AmG and IAG 49%. AmG is the third largest motor insurer in Malaysia.



STATE BANK OF INDIA

State Bank of India (SBI) is India's largest and oldest bank, with origins that can be traced back to 1806. It offers a broad range of banking and financial services, and has a footprint which, including associated banks, spans over 160 million customers and 18,000 branches across all states of India.

SBI General Insurance Company (SBI General), a joint venture between SBI and IAG, was established in late 2009. In the longer term SBI General plans to build a portfolio with a presence in the corporate, retail and SME markets across India, with the majority in the retail segment through SBI's bancassurance channel. SBI General has an exclusive corporate agency agreement with SBI for general insurance business.

SBI owns 74% of SBI General and IAG 26%. IAG has an option to increase its shareholding to 49%, subject to a change in the Indian foreign direct investment limit.



LLOYD'S

Lloyd's is based in London and is the world's leading specialist insurance market, conducting business in over 200 countries and territories worldwide. It brings together specialist underwriting expertise and comprises over 50 managing agents and over 80 syndicates.

Lloyd's is not an insurance company but a society of members, both corporate and individual, who underwrite in syndicates on whose behalf professional underwriters accept risk. Supporting capital is provided by investment institutions, specialist investors, international insurance companies and individuals. Together, the syndicates underwriting at Lloyd's form one of the world's largest commercial insurers and a leading reinsurer.

Equity Red Star Motor Syndicate 218 is the largest motor and personal lines syndicate at Lloyd's and represents the most significant part of IAG's UK business. IAG's wholly-owned Lloyd's corporate member, Equity Red Star Limited, currently provides approximately 64.1% of the syndicate's underwriting capacity.



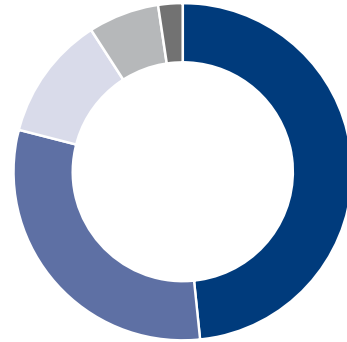
APPENDIX D – GEOGRAPHICAL & PRODUCT DIVERSIFICATION

IAG GROUP GWP BY PRODUCT – FY11



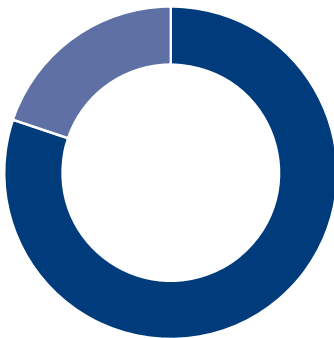
- Motor
- Home
- Short-tail Commercial
- CTP (Motor Liability)
- Liability
- Other Short-tail
- Workers' Compensation

IAG GROUP GWP BY BUSINESS – FY11



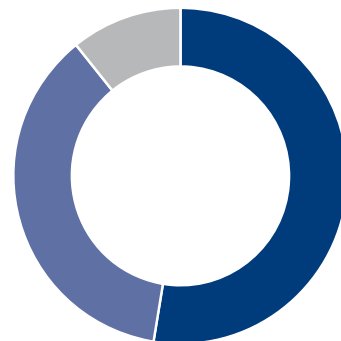
- Australia Direct
- Australia Intermediated
- New Zealand
- United Kingdom
- Asia

IAG GROUP GWP BY TAIL – FY11



- Short Tail
- Long Tail

IAG GROUP GWP BY CHANNEL – FY11



- Direct
- Broker/agent
- Affinity

APPENDIX E – KEY ASX RELEASES

A summary of the announcements made by IAG to the ASX since 31 December 2010 is set out below. It does not include announcements of changes in directors' interests, or the issue of shares upon exercise by employees of share rights. Reference should be made to a copy of the ASX announcements if further information is required. These are available at <http://www.iag.com.au>.

13-JAN-11 IAG UPDATE ON SEVERE WEATHER IN QUEENSLAND

IAG provided an update on the severe weather conditions experienced in Queensland, confirming an expected related claim cost of \$10-30m in December, taking expected natural peril claim costs, after reinsurance recoveries, to an estimated \$120-140m for the six months ended 31 December 2010. The Group stated it was too early to quantify any financial impact from the ongoing extreme weather experienced in early January 2011.

4-FEB-11 IAG UPDATE ON REINSURANCE AND SEVERE WEATHER EVENTS

IAG provided an update on its calendar 2011 catastrophe reinsurance programme, together with the estimated impact of recent severe weather events, including Tropical Cyclone Yasi.

14-FEB-11 IAG MARKET UPDATE

IAG provided an update on its expected result for the six months to 31 December 2010, as well as its claims experience related to recent severe weather and natural peril events in Australia and its expectations for the Group's full year result. IAG said it expected to report a first half insurance profit of \$470m, representing an insurance margin of 12.7%, while recent peril events were expected to cost approximately \$300m, after reinsurance recoveries, which would be reflected in the Group's 2H11 result. Full year margin guidance was lowered to 9-11%, from 10.5-12.5%.

23-FEB-11 IAG REVISES FY11 GUIDANCE FOLLOWING CHRISTCHURCH EARTHQUAKE

IAG provided an update on the earthquake which struck Christchurch on 22 February 2011, confirming that the Group's maximum financial exposure to the event would be \$40m, following reinsurance recoveries. As a result, the Group revised its FY11 insurance margin guidance to a range of 8-10%, inclusive of the estimated cost of catastrophe reinsurance cover reinstatements.

24-FEB-11 IAG ANNOUNCES FIRST HALF RESULT

IAG announced an insurance profit of \$470m for the six months ended 31 December 2010, representing an insurance margin of 12.7%. The Board determined to pay a fully franked interim dividend of 9.0 cents per share.

7-MAR-11 PRESENTATION BY IAG TO CITI AUSTRALIA AND NEW ZEALAND INVESTMENT CONFERENCE

IAG Managing Director and Chief Executive Officer, Mr Mike Wilkins, presented to the Citi Australia and New Zealand Investment Conference, providing an update on the Group's performance to investors in London.

APPENDIX E – KEY ASX RELEASES

28-MAR-11 DIVIDEND REINVESTMENT PLAN PRICING

IAG advised that ordinary shares to be allocated under the Company's Dividend Reinvestment Plan (DRP) would be priced at \$3.3817 per share for the interim dividend payable on 11 April 2011.

11-MAY-11 COMPANY SECRETARY APPOINTMENT

IAG advised that Mr Chris Bertuch had been appointed as Company Secretary following the resignation of Mr Glenn Revell.

14-JUN-11 IAG RESETS STRATEGIC PRIORITIES

At a market strategy briefing, IAG announced the following reset strategic priorities:

- To accelerate growth in Australia and New Zealand;
- To restore profitability in the UK; and
- To boost its Asian footprint so that it represents 10% of Group GWP by 2016.

IAG advised it was too early to assess the financial impact of the earthquakes in New Zealand on 13 June 2011, but reaffirmed underlying GWP growth guidance of 3-5% for FY11.

30-JUN-11 IAG PROVIDES UPDATE ON CHRISTCHURCH EARTHQUAKES

IAG advised that, based on its early assessment of the damage caused by the earthquakes and aftershocks which affected New Zealand's Christchurch region on 13 June 2011, it expected a maximum associated net claim cost of \$65m. The Group reaffirmed its FY11 margin guidance of 8-10%, with increased expected net natural peril claim costs of around \$600m offset by higher than anticipated reserve releases.

4-JUL-11 IAG AMENDS TERMS OF STERLING SUBORDINATED NOTE ISSUE

IAG announced an amendment to the terms of its £157m subordinated exchangeable loan note issue, with effect from October 2011. Following the amendments, the date at which the notes may be redeemed or exchanged into IAG ordinary shares has been extended to December 2012, and the notes will pay a reduced coupon of LIBOR +1.875%. The notes will continue to qualify as lower Tier 2 capital under current regulatory requirements.

15-AUG-11 IAG MAKES STRATEGIC INVESTMENT IN A GENERAL INSURER IN CHINA

IAG announced it had agreed to acquire a 20% strategic interest in a general insurer in China, Bohai Property Insurance Pty Ltd, for a price of RMB687.5 million (approximately A\$100 million). Completion is expected in early calendar 2012 and remains subject to regulatory approval.

APPENDIX F – GLOSSARY

The following is a glossary of the terms used in this report, including those commonly used in the insurance industry.

Affinity	A long term relationship where insurance services, such as underwriting, are provided to a third party under whose brand insurance products are sold.
APRA	Australian Prudential Regulation Authority.
ASX	Australian Securities Exchange Limited.
Cash earnings	IAG defines cash earnings as net profit after tax attributable to IAG shareholders, plus amortisation and excluding any unusual items. This definition is used for the purposes of the Group's dividend policy.
Cash ROE	IAG defines cash ROE as reported ROE adjusted for amortisation and unusual items.
Combined ratio	Represents the total of net claims expense, commission expense and underwriting expense, expressed as a percentage of net earned premium. It is equivalent to the sum of the loss ratio and expense ratio.
Credit spread	The credit spread is the difference between the average yield to maturity of the portfolio of non-government securities and the average yield to maturity of the liability profile, valued using Commonwealth Government of Australia yields.
CTP	Compulsory Third Party insurance, which is liability cover that motorists are obliged to purchase in Australia.
Discount rate	In accordance with accounting standards, outstanding claim liabilities are discounted to account for the time value of money. IAG uses a risk free discount rate.
Deferred acquisition costs (DAC)	Accounting standards require acquisition costs incurred in obtaining and recording general insurance contracts to be deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the income statement in subsequent periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the related general insurance contracts.
DRP	Dividend Reinvestment Plan. This plan permits shareholders to receive shares as consideration for dividends. IAG can elect to issue shares or have them acquired on market for DRP participants.
Expense ratio	The ratio of expenses to net earned premium. Expenses are split into administration (underwriting) and commission, with rates calculated on the same basis.
Fire services levy (FSL)	FSL is a tax on insurers to assist government funding for fire services. FSL is an expense of the insurer, rather than government charges directly upon those insured. The insurer is responsible for paying FSL, usually in arrears. The amount paid by the insurer does not depend on the amounts collected from those insured in relation to the levy. FSL is imposed in the States of NSW and Victoria, in Australia.
Gross earned premium	Premium is recognised in the income statement as it is earned. The insurer estimates the pattern of the incidence of risk over the period of the contract for direct business, or over the period of indemnity for reinsurance business, and the premium revenue is recognised in the income statement in accordance with this pattern.

APPENDIX F – GLOSSARY

Gross written premium (GWP)	The total premiums relating to insurance policies underwritten by a direct insurer or reinsurer during a specified period and measured from the date of attachment of risk and before payment of reinsurance premiums. The attachment date is the date the insurer accepts risk from the insured.
Group	Insurance Australia Group Limited (IAG) and its subsidiaries.
Immunised ratio	An immunised ratio is used to compare underwriting results between periods, as it normalises the ratio for the effects of changes in the risk free rate used to discount liabilities.
Insurance margin	The ratio of insurance profit to net earned premium.
Insurance profit	Underwriting result plus investment income on assets backing technical reserves.
Liability adequacy test (LAT)	Accounting standards require an assessment of the sufficiency of the unearned premium liability be performed each reporting period by considering the expected future cash flows relating to future claims arising from the unearned premium, net of reinsurance and deferred acquisition costs. If the unearned premium liability is considered deficient then the entire deficiency is recognised in the income statement, firstly through the write down of deferred acquisition costs and with any remaining amount recognised in the balance sheet as an unexpired risk liability.
Long tail	Classes of insurance (such as CTP and workers' compensation) with an average period generally greater than 12 months between the time when earned premiums are collected and final settlement of claims occurs.
Loss ratio	The ratio of net claims expense to net earned premium.
MCR	Minimum Capital Requirement as defined by APRA.
MER	Maximum Event Retention, representing the maximum cost which could be incurred in the event of a further major catastrophe event, after allowing for reinsurance cover.
Net claims expense	Insurance claim losses incurred plus claims handling expenses, net of recoveries from reinsurance arrangements.
Net earned premium (NEP)	Net earned premium is gross earned premium less reinsurance expense.
Probability of adequacy (PoA)	The estimated probability that the amounts set aside to settle claims will be equal to or in excess of the amounts eventually paid in respect of those claims. This estimation is based on a combination of prior experience and expectations, actuarial modelling and judgement. It is also known as the probability of sufficiency (PoS). APRA's prudential standard GPS 310 requires general insurers to maintain a minimum value of insurance liabilities that is greater than a 75% level of sufficiency.
Recoveries	The amount of claims recovered from reinsurers, third parties or salvage.
Reset Exchangeable Securities (RES)	Reset Exchangeable Securities (RES) are quoted as IANG on ASX and issued by IAG Finance (New Zealand) Limited. The issuer is a wholly owned subsidiary of IAG.
Reset Preference Shares (RPS)	Reset Preference Shares are quoted as IAGPA on ASX and issued by IAG.
Risk free rate	The risk free rate is the rate of return on a range of Commonwealth Government bonds. It is deemed to be risk free as there is a very low risk the Commonwealth Government of Australia will default on its obligations.

APPENDIX F – GLOSSARY

Risks in force	Risk refers to the subject matter that an insurance policy or contract protects (for example, number of vehicles, houses, employees). An insurance policy may cover one risk or many risks, depending on the terms of the policy. Risks in force are a measure of the total number of risks covered by an insurance company at a point in time.
Shareholders' funds	The investment portfolio of assets held in excess of the amount backing technical reserves, representing shareholders' equity not used in day-to-day operations.
Short tail	Classes of insurance (such as motor, home and small-to-medium enterprise (SME) commercial) with an average period generally less than 12 months between the time when premiums are earned and final settlement of claims occurs.
Technical reserves	The investments held to back the outstanding claims liability (including incurred but not reported (IBNR) and incurred but not enough reported (IBNER)) and unearned premium, net of recoveries and premium debtors.
Underwriting	The process of examining, accepting or rejecting insurance risk, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
Underwriting expenses	Those expenses incurred as a result of underwriting activities, including risk assessment and other acquisition expenses.
Underwriting profit/(loss)	Net earned premium less net claims expense, commission expenses and underwriting expenses.
Unearned premium	Premium applicable to the unexpired portion of an insurance contract, which has not been recognised in the income statement and is identified in the balance sheet as an unearned premium liability. The unearned premium liability is to meet the costs, including the claims handling costs, of future claims that will arise under current general insurance contracts and the deferred acquisition costs that will be recognised as an expense in the income statement in future reporting periods.
WACC	Weighted average cost of capital.